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THE UNITED STATES AND THE WAR DEBTS

A Memorandum

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THE UNITED STATES AND THE WAR DEBTS

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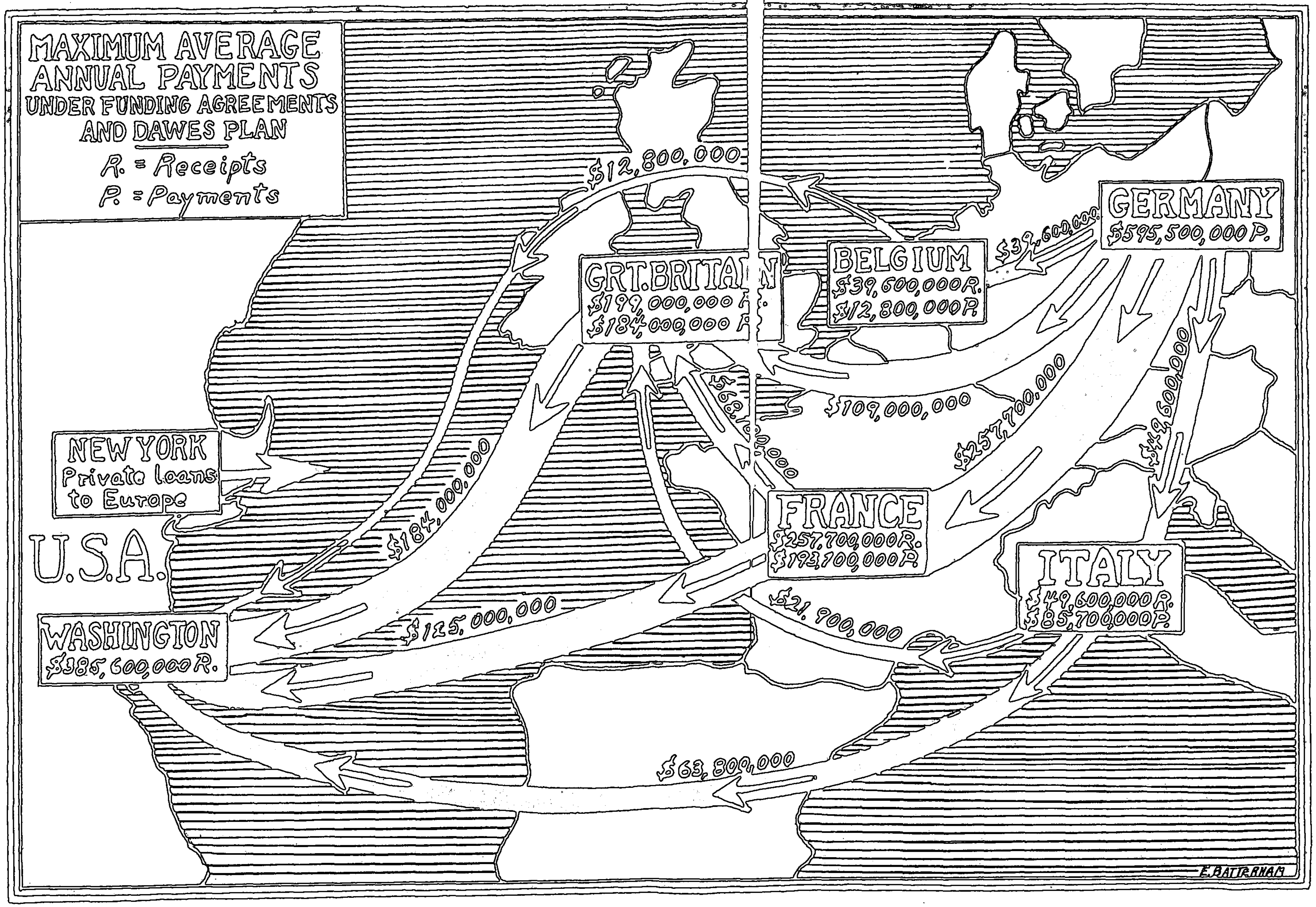

SCHEDULE OF MAXIMUM AVERAGE ANNUAL PAYMENTS UNDER THE DAWES PLAN AND THE DEBT SETTLEMENTS

This diagram pictures the ultimate relationship between the Dawes Plan and the debt funding agreements. It is based on the schedule of the maximum average annual payments, which, with the exception of Germany, will not be reached until the later years of the operation of the settlements. The maximum reparation payments from Germany begin in 1928-29. The arrow pointing from New York indicates the possibility of payments being made on the part of European Governments out of receipts of private loans from America.

THE UNITED STATES AND THE WAR DEBTS

A Memorandum

SETTLEMENT of inter-governmental debts arising out of the war continues to be an outstanding problem in the relations of the United States with the debtor nations of Europe. Although formal debt-funding agreements have been negotiated with thirteen of the sixteen European governments owing obligations to the United States, the fundamental issues involved in the debt problem remain unsettled. Inter-governmental debts cannot be liquidated merely by the negotiation of formal diplomatic agreements. In the final analysis the repayment of war debts to the United States involves profound economic adjustments which must have their effect upon the industry and commerce of all nations concerned.

THE ISSUES

The points raised in popular discussions of the debt problem from the American point of view may be grouped under three general heads:

1. The ethical problem.
   Is the United States morally justified in insisting upon the collection of the debts up to the limit of the debtor nations' "capacity to pay"?
2. The economic problem.
   What saving to the American taxpayers will result from the execution of the funding agreements and what will be the indirect effects of collection on American industry and commerce?
3. The political problem.
   Apart from the questions of moral justice and economic wisdom, is the execution of the debt-funding agreements expedient from the purely political standpoint?

It is obviously impossible to give a definite answer to any of these questions since every conclusion must depend upon the personal interpretation that is given to the facts. This report is limited strictly to an objective statement of the essential facts themselves.

AMERICAN WAR LOANS

Between April 1, 1917, and November 30, 1920, the United States loaned a total of $10,338,000,000[1] to twenty different countries in various parts of the world. These loans were given Congressional authority as follows:

1. The Liberty Loan Acts, which authorized the Secretary of the Treasury to make advances to countries engaged in war with enemies of the United States. Congress authorized loans to the extent of $10,000,000,000 under the authority of four successive Liberty Loan Acts as follows:[2]

Act of April 24, 1917	$ 3,000,000,000
Act of September 24, 1917	4,000,000,000
Act of April 4, 1918	1,500,000,000
Act of July 9, 1918	1,500,000,000
	$10,000,000,000

The countries to which these loans were made and the amounts borrowed by each are shown as follows:[3]

Belgium	$ 349,214,000
Cuba	10,000,000
Czechoslovakia	61,974,000
France	2,997,478,000
Great Britain	4,277,000,000
Greece	15,000,000
Italy	1,648,034,000
Liberia	26,000
Rumania	25,000,000
Russia	187,730,000
Jugoslavia	26,780,000

2. Another series of Congressional Acts authorized war supplies and relief loans as follows:

[1] U. S. Treas. Dept. *An. Rept. on State of Finances*, 1919-20.
[2] *Ibid.* p. 53.
[3] U. S. Treas. Dept. *An. Rept. on State of Finances*. 1925-26. p. 49.

a. Act of July 9, 1918, authorizing the President, through the head of any Executive Department, to sell any surplus war supplies on such terms as the head of that Department deemed prudent.

b. The Act of February 25, 1919, which appropriated $100,000,000 as a revolving fund for the participation by the United States at the discretion of the President in furnishing foodstuffs and other urgent supplies to certain populations in Europe and contiguous countries.

c. The Act of March 30, 1920, which authorized the United States Grain Corporation, with the approval of the Secretary of the Treasury, to sell the flour in its possession, not to exceed five million barrels, on such terms as might be necessary to relieve the population in certain countries of Europe. The total advances made under the war supplies and relief acts amounted to $739,000,000 distributed among the various countries as follows:[4]

Armenia	$ 11,959,000
Austria	24,055,000
Belgium	29,872,000
Czechoslovakia	29,905,000
Estonia	13,998,000
Finland	8,281,000
France	407,341,000
Hungary	1,685,000
Latvia	5,132,000
Lithuania	4,981,000
Nicaragua	166,000
Poland	159,666,000
Rumania	12,922,000
Russia	4,871,000
Jugoslavia	24,978,000
Total	$ 739,821,000

The total advances to foreign governments amounted to $10,338,000,000. Out of this amount $9,598,000,000 were advanced under the authority of the Liberty Loan Acts, of which $7,077,000,000 were advanced previous to the armistice and $2,521,000,000 of loans were extended after the signing of the armistice. The total advances made under the war supplies and relief acts amounted to $739,000,000 and were practically all made after the signing of the armistice.[5] The following statement, prepared by Mr. Louis E. Van Norman of the Department of Commerce from the official Treasury reports, shows the official amounts of pre-armistice and post-armistice indebtedness of foreign governments to the United States and the repayments which were made on the principal up to the date of the funding agreements.[6]

Country	Pre-Armistice	Post-Armistice		Total Indebtedness	Repayments of Principal	Net Indebtedness
	Cash Loans	Cash Loans	War Supplies and Relief Supplies			
Armenia	....	....	$11,959,917.49	$11,959,917.49	....	$11,959,917.49
Austria	....	....	24,055,708.92	24,055,708.92	....	24,055,708.92
Belgium	$171,780,000.00	$177,434,467.89	29,872,732.54	379,087,200.43	$2,057,630.37	377,029,570.06
Cuba	10,000,000.00	....	....	10,000,000.00	10,000,000.00	....
Czechoslovakia	....	61,974,041.10	29,905,629.93	91,879,671.03	....	91,879,671.03
Estonia	....	....	13,999,145.60	13,999,145.60	....	13,999,145.60
Finland	....	....	8,281,926.17	8,281,926.17	....	8,281,926.17
France	1,970,000,000.00	1,027,477,800.00	407,341,145.01	3,404,818,945.01	64,302,901.29	3,340,516,043.72
Great Britain	3,696,000,000.00	581,000,000.00	....	4,277,000,000.00	202,181,641.56	4,074,818,358.44
Greece	....	15,000,000.00	....	15,000,000.00	....	15,000,000.00
Hungary	....	....	1,685,835.61	1,685,835.61	....	1,685,835.61
Italy	1,031,000,000.00	617,034,050.90	....	1,648,034,050.90	364,319.28	1,647,669,731.62
Latvia	....	....	5,132,287.14	5,132,287.14	....	5,132,287.14
Liberia	....	26,000.00	....	26,000.00	....	26,000.00
Lithuania	....	....	4,981,628.03	4,981,628.03	....	4,981,628.03
Nicaragua	....	....	166,604.14	166,604.14	138,721.15	27,882.99
Poland	....	....	159,666,972.39	159,666,972.39	....	159,666,972.39
Rumania	....	25,000,000.00	12,922,675.42	37,922,675.42	1,798,632.02	36,124,043.40
Russia	187,729,750.00	....	4,871,547.37	192,601,297.37	....	192,601,297.37
Jugoslavia	10,605,000.00	16,175,465.56	24,978,020.99	51,758,486.55	720,600.16	51,037,886.39
Total	$7,077,114,750.00	$2,521,121,825.45	$739,821,776.76	$10,338,058,352.20	$281,564,445.83	$10,056,493,906.37

[4] U. S. Treas. Dept. *An. Rept. on State of Finances.* 1924-25. p. 49.

[5] U. S. Treas. Dept. *An. Rept. on State of Finances,* 1919-20.

[6] Van Norman, L. E. *Europe's Moral and Material Obligations to America.* (Current History Magazine. Dec. 1926. p. 811-21.)

WAR DEBTS AND REPARATIONS

The debts of the various nations to the United States cannot be regarded as an isolated situation apart from the general world problem of inter-governmental indebtedness. Under the terms of the debt-funding agreements and the Dawes Plan the inter-governmental debt situation among the larger nations is somewhat as follows. Germany, on the one hand, is the general debtor with obligations owing to all the Allied governments. The United States, on the other hand, is the general creditor holding the obligations of practically all the European belligerents. Great Britain, France, Italy and Belgium occupy a middle position, being both debtors and creditors. Great Britain's maximum receipts from Germany and Italy under the terms of the debt-funding agreements with those countries amount approximately to $200,000,000 and her maximum average annual payments to the United States amount to $184,000,000. The maximum annual receipts that France is due to receive from Germany under the Dawes Plan amount to $258,000,000 and she is obligated to pay to the United States and Great Britain under the proposed debt-funding agreements approximately $193,000,000. The maximum annual receipts of the Italian government from Germany amount to about $50,000,000, while her maximum average annual payments to Great Britain and the United States total about $86,000,000. Belgium's maximum receipts from Germany, on account of reparations, amount to about $40,000,000 annually while her maximum average annual payment to the United States is about $13,000,000.

HOW THF DEBTS WERE CONTRACTED

When the United States entered the war inter-governmental borrowing by the Allies amounted to approximately $8,000,000,000, a large part of which had been loaned by Great Britain. Great Britain, during this period, was the banker for the Allies and occupied somewhat the same position as that in which the United States found itself after April 6, 1917. Being unable immediately to put a numerically effective army into the field Great Britain loaned to Russia, France, Italy, the Dominions, Rumania, Serbia, Montenegro, Portugal and Greece. Of the total amount of inter-Allied borrowing of approximately $8,000,000,000 during this period Great Britain, according to Mr. Harvey Fisk, loaned close to $6,000,000,000 of the total amount.[7]

AMERICAN NEUTRALITY

The United States, as a neutral during this period, did not officially participate in any of these financial operations, but nevertheless a part of the Allied credits came from private American sources. The United States was in a position to supply the European governments with most of the commodities essential to the prosecution of the war, including clothing, foodstuffs, machinery and other goods necessary for the maintenance of the armies and the support of the civilian populations. These goods were paid for by England, in part by selling back to Americans large blocks of the securities of American corporations in which British nationals had been the largest foreign investors previous to the war. British government bonds and Treasury bills also were sold actively in American markets. One of the most conspicuous private grants of credit during this period was the $500,000,000 five per cent Anglo-French bond issue of 1915 which was floated by an American banking syndicate under the leadership of J. P. Morgan & Co. The French Government borrowed heavily from private American resources by much the same means as Great Britain, although not in such large amounts.

[7] Fisk, H. E. *Inter-Ally Debts.*

AMERICAN PARTICIPATION

When the United States entered the war on April 6, 1917 the Allied governments had almost reached the end of their financial resources and it became apparent that because of the comparative military unpreparedness of the United States, the immediate contribution of the United States would have to be a financial one. President Wilson, in his message to Congress on April 2, 1917, called for "the organization and mobilization of all the material resources of the country to supply the materials of war and serve the incidental needs of the nation in the most abundant and yet the most economic and efficient way possible." The President further declared that this would render necessary not only "the most practical co-operation, council and action with the governments now at war with Germany," but also, "the extension to these governments of the most liberal credits in order that our resources may so far as possible be added to theirs."

LOANS NOT GIFTS

Congress acted upon the President's war program almost immediately and the first Liberty Loan Act authorizing a bond issue of $5,000,000,000 and a loan amounting to $3,000,000,000 to be issued to countries "engaged in war with enemies of the United States" was signed by the President and became a law on April 24, 1917. There was nothing in the first Liberty Loan Act nor any of the subsequent Acts passed by Congress which would indicate that the extension of credits to the Allied governments was "a joint contribution to a common cause." The Liberty Loan Acts specifically restricted the loans to "governments engaged in war with enemies of the United States" and limited the purpose for which the loans were to be granted to the prosecution of the war, instructing the Secretary of the Treasury "to enter into such arrangements as may be necessary or desirable for establishing such credits and for purchasing such obligations of foreign governments and for the subsequent payment thereof before maturity."[8] It also authorized the Secretary to apply payments from foreign governments to the retirement of outstanding Liberty Bonds. In following out the instructions of the Liberty Loan Acts, the Secretary of the Treasury required the representatives of the borrowing governments to sign promissory notes for their indebtedness in much the same manner as would be required from a borrower in an ordinary commercial transaction.[9] From a purely legal point of view, therefore, it is clear that the advances made to the Allies under the authority of the Liberty Loan Acts were in the nature of loans for which provisions were made for future repayment, and they can in no way be interpreted as a gift on the part of the United States.

"CONTRIBUTIONS TO THE COMMON CAUSE"

While it is true that from the legal point of view the loans extended by the United States to the Allied governments were in the nature of ordinary commercial transactions, there is considerable evidence that the United States would have provided the Allied governments with credits whether or not they were ever to be repaid. Ambassador Page, writing to his brother from London, advocated a gift of one billion dollars to France and "a big loan to Great Britain at a low rate of interest."[10] The attitude of many leaders in both houses of Congress was expressed in the Congressional debate on the first Liberty Loan as follows:

Representative Kitchin, Chairman of the Ways and Means Committee of the House, and the author of the bill, said: "You will understand that they will be fighting with our money their battles and will be fighting with our money our battles, and too. . . . we are of the opinion that most of this money that we will loan to the Allies for the purchase of their arms will have to be expended in the United States."

Representative Fitzgerald, Chairman of the Appropriations Committee, declared:

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[8] U. S. Treas. Dept. *An. Rept. on State of Finances*, 1919-20.

[9] See Annex I, form of Certificate of Indebtedness.

[10] Fisk, H. E. *Inter-Ally Debts*. p. 176.

"I should gladly vote to give $6,000 million to the nations arrayed on the same side with us if we could win this war without sacrificing American blood and American lives. I have little sympathy with the suggestion that possibly we will not get our money back. I care not so much if we do, if American blood and American lives be preserved by the granting of the money."

Congressman Rainey stressed much the same idea when he stated that, "We are not making this loan for the purpose of making an investment of our funds. We are making this loan in order to further our interests primarily in this world war and from that moment when the Congress of the United States declared that a state of war existed between this country and Germany every blow struck at Germany by any of her enemies was struck also in our interest."

Representrative Madden said: "If the men who have not the money and are able to fight are willing to fight and offer their lives for the preservation of the American army and for the liberty of the world, then the men who are not able to fight but who have had the good fortune to make money ought to help to pay the bill. . . . Everyone knows that we will not have an army in the field for a year or more than a year, and our duty to posterity and to liberty is to do everything we can do to win the victory for the American people and for the liberty of the world."

THE DEBATE IN THE SENATE

Very much the same sentiments were expressed in the Senate as in the House of Representatives. The late Senator Cummings of Iowa expressed his desire to make an outright gift to the Allied governments as follows:

> "I am perfectly willing to give to any of the Allied nations the money which they need to carry on our war, for it is now ours. I would give to them just as freely as I would vote to keep an army or to maintain a navy of our own, but I should shrink from the consequences that will in all human probability follow from the course which is suggested in this bill. I should like to give to the Allied nations $3,000 million, if they need the contribution, with never a thought of its repayment at any time under any circumstances. I should like to give that or whatever sum may be needed as our donation to one phase of our own war, but I fear that in the years to come the fact that the United States has in its possession bonds of these great countries which when they emerge from the war will all be bankrupt, will create an embarrassment from which the men of these days will find it difficult to escape.

> "I think it will cost us more to take those bonds and hold them against these governments than it would cost us to give the money with a generous and patriotic spirit to do something which for the time being—for the moment—we are unable to do with our own army and navy."

Senator Smoot of Utah, now Chairman of the Finance Committee of the Senate and a member of the United States Debt-Funding Commission, who negotiated the present debt-funding agreements, in the debate in 1917, declared:

> "The $3,000 million which we are perhaps to raise by a bond issue advancing it to the Allies, I believe, Mr. President, will all be repaid, but if it should not be, or if not one penny of it is returned, I wish to say that every penny of it will be expended for the defense of the principles in which we believe and which we entered the war to uphold. Mr. President, I believe that every dollar that will be expended under the provisions of this bill. . . .will be for the benefit of the United States, whether spent by us or by the Allies."

"OBLIGATION TO FRANCE"

The debate on the First Liberty Loan Act brought out a general expression of appreciation of the part that France had played in the American Revolution and drew a parallel between the circumstances surrounding French aid to America in the War of Independence and the circumstances of the war which existed in 1917. These generous expressions doubtless explain in part the present disappointment of France with respect to the Mellon-Berenger agreement.

Representative Montague of Virginia, speaking in the House on April 14, 1917, said:

> "The world today beholds the agony and glory of France; civilization itself is moved by her heroic resistance to the colossal forces now battling to extinguish her republican institutions and to tear asunder the very fabric of her

liberties. So I have hoped that today our great nation might, through their representatives in this hall, at least write into this bill a forebearance and remittance upon any French bonds purchased by the American Government. . . . .

"Mr. Chairman, has our republic forgotten its weakness and its dire extremities in the days of its infancy?. . . . . I can never subscribe to a view that would prevent this nation from making discrimination in behalf of the nation that made the existence of this republic possible."

Representative Graham of Pennsylvania, in commenting upon the speech of Mr. Montague said:

"I cordially agree with the thought and wish it were practicable to put an amendment in this bill so that we might at this time, when the situation is so exactly analagous to what it was in the Revolutionary period, say to France, 'We will make you a loan, the interest upon that loan shall be remitted, and that loan itself shall be payable at your pleasure.' True, France was fighting England in those days; but we are fighting Germany. True, she loaned us money without interest. She gave us men, she gave us the immortal Lafayette to help Washington in the dark hours of the American Revolution, and it would be but a small thing for us now to show that the old remark is without truth, that 'republics are ungrateful'; to show to the world that America with her higher ideals is prepared to set a new standard of action among the nations of the earth."

HOW THE CREDITS WERE USED

The advances to the Allied governments were in no case made in actual money, but rather in the form of credits established with the Federal Reserve Bank, upon which the Allied governments were allowed to draw in order to pay for goods purchased in the United States. Practically the entire amount of advances made by the Secretary of the Treasury was used in purchasing American supplies. The purchases of the Allied governments were handled through a commission with headquarters at Washington. The members of this Commission, Bernard Baruch, Robert S. Lovett and Robert S. Brookings, were also members of the War Industries Board, and were, therefore, able to coordinate the purchases of the United States with those of the Allied governments. In this way the expenditure of the money loaned to the Allied powers was under the direct supervision of the Treasury Department and a committee of the War Industries Board. The foreign governments were required to report to the United States Treasury an itemized statement of their expenditures and the Treasury advanced the credit in order to enable the governments to pay for the materials purchased.

EXPENDITURES OF THE ALLIED GOVERNMENTS

The purpose for which these advances were used is reported by the United States Treasury as follows:[11]

Munitions, including remounts	$ 2,493,610,000
Munitions for other governments	205,495,000
Exchange and cotton purchases	2,644,783,000
Cereals	1,422,476,000
Other foods	1,629,726,000
Tobacco	145,100,000
Other supplies	613,107,000
Transportation	136,093,000
Shipping	173,397,000
Interest	730,504,000
Maturities	648,246,000
Relief	538,188,000
Silver	267,943,000
Food for Northern Russia	7,029,000
Purchases from Neutrals	18,718,000
Special credit against credits to be established for United States Government war purchases in Italy	25,000,000
Miscellaneous	168,530,000
	$11,867,943,000

[11]Idem.

LOANS FOR "COMMERCIAL" AS DISTINGUISHED FROM "WAR" PURPOSES

There has been considerable objection to including in the war accounts of the Allied governments certain expenditures which it is claimed were not made strictly for war purposes. As will be seen from the above table, the Allied governments borrowed considerable sums for the purpose of pegging their exchange, for providing food for their civilian population and in some cases in order to pay off maturities on previously contracted commercial loans. Secretary Mellon, in his reply to Mr. Frederick W. Peabody, on July 14, 1926, said, "It must be remembered that England borrowed a large proportion of its debt to us for purely commercial as distinguished from war purposes—to meet its commercial obligations maturing in America, to furnish India with silver, to buy food to be resold to its civilian population, and to maintain exchange. Our loans to England were not so much to provide war supplies as to furnish sterling for home and foreign needs and to save England from borrowing from its own people."

In his reply to the criticisms of the professors of Columbia and Princeton Universities on March 16, 1927, Secretary Mellon carried this argument even further. He said:

"We purchased supplies and services from France and the British Empire by hundreds of millions. They had to be paid for in francs and in pounds. We did not get those francs and pounds on credit—we paid cash for them, except possibly in a few comparatively minor instances. In other words, we paid cash for the goods and services necessary to enable us to make our joint contribution to the common cause. Our associates got the goods and services purchased in this country necessary to enable them to make that part of their joint contribution on credit. Here is the fundamental reason which explains why we ended the war with every one owing us and our owing no one.

"We are now urged to cancel these debts because it is alleged that they were incurred in a common cause, but neither abroad nor in this country has it been suggested that if this is to be done we are to be reimbursed the dollars actually expended by us in France and Great Britain so that the goods and services they sold us might constitute their contribution to the common cause.

"In this connection, one other fact may well be called to your attention. Among the purposes for which we made dollar advances was that of maintaining the franc and the pound at somewhere near their normal values. In other words, we loaned our associates the dollars with which to purchase bills on London and Paris and so permit them to peg the exchanges.

"When we were obliged to purchase francs and sterling for our own uses in the Paris and London markets, we did so at the artificial prices maintained by the use of the very funds we had loaned."

In the final analysis, the force of these arguments depends upon what distinction is made between "commercial" and "war" purposes. In a war such as the last one, which involved the use of the entire resources of the nation, civil as well as military, it is extremely difficult to distinguish between war and non-war expenditures. The National Industrial Conference Board, in their preliminary study, "The Inter-Ally Debts and the United States," had the following to say in regard to attempts to classify the war-time expenditures into such categories. "Moreover, on careful definition, the distinctions to be drawn between war and non-war purposes seem to have little reality. It is extremely difficult to say what part of the loans might be regarded as having been expended for purposes unconnected with the war or unconnected with the period of American participation in the war. The principal categories usually associated with this idea are: first, pre-armistice expenditures by the European Allied governments in support of their civil populations or for protection of national trade interests; second, expenditures to provide for commitments made prior to the entry of the United States into the war such as interest and maturities. Third, all the post-armistice cash advances amounting to about $2,000,000,000, (excluding the portion falling in category 2). Fourth, surplus war materials sold abroad after the armistice amounting to about $600,000,000."[12]

PRE-ARMISTICE AND POST-ARMISTICE LOANS

It has also been suggested that a distinction be drawn between the advances made previous to the signing of the armistice and

[12] Nat. Ind. Conf. Bd. *Inter-Ally Debts and the U. S.* p. 60.

those made after hostilities ceased, November 11, 1918. It has been argued that the Liberty Loan Acts carried with them no legal authority for the granting of advances after the signing of the Armistice. The Liberty Loan Acts explicitly limited the loans to the purpose of the prosecution of the war and to those countries engaged in war with enemies of the United States. The United States remained technically at war with Germany until June 2, 1921, but since active hostilities ceased on November 11, 1918, the date of the Armistice, the Treasury has been severely criticized upon the grounds that it exceeded the powers conferred upon it by the Liberty Loan Acts in continuing to grant loans. It is also true that during the post-armistice period advances were extended to countries other than those which had been engaged in war with enemies of the United States.

The chief purpose of the United States Treasury in continuing to extend loans to foreign governments after the signing of the armistice was to enable them to carry out contracts previously made for the purchase of American goods, as the Treasury was fearful of the consequences of an immediate cancellation of these large buying orders. Humanitarian considerations also played their part, especially with reference to the loans made to a number of the smaller European governments.

ALLEGED DISCRIMINATION AGAINST GREAT BRITAIN[13]

It has frequently been alleged that the United States has unjustly discriminated against Great Britain, both in the less favorable terms granted to her by the debt-funding agreements and in the matter of guarantees, as it is claimed that a large part of the British indebtedness was accumulated in behalf of the other Allies. It is charged that Great Britain borrowed from the United States in order to re-loan to France and Italy and that the United States insisted upon British guarantees before loaning money to the other nations.

The question of whether Great Britain has been discriminated against in the debt-funding agreements can better be judged by reference to the summary of debt settlements on page 21. Additional consideration, however, must be given to the charges that the United States insisted upon guarantees from Great Britain before loaning money to the Allies.

In the "Balfour note" of August 1, 1922, the British Secretary of State for Foreign Affairs gave expression to this idea by saying:

"It should not be forgotten, though it sometimes is, that our liabilities were incurred for others, not for ourselves."

Mr. Philip Snowden, Chancellor of the Exchequer in the MacDonald cabinet, has frequently made the same contention. In March, 1925, he said:

"These sums were borrowed by Great Britain either from her own citizens through the medium of war loans or from the United States. If it had not been necessary for Great Britain to lend to her European allies to keep them going there would have been no need for us to borrow from America. The American debt was incurred by Great Britain to lend to France and Italy."

REASONS FOR BRITISH BORROWING IN U. S.

In spite of repeated assertions of this nature, there seems to be no evidence to support the contention that Great Britain incurred its indebtedness in behalf of the Allies. While it is true that the British Government acted as the purchasing agent in America for other governments, the sums borrowed for these purposes were returned to Great Britain with funds borrowed from the United States by the other Allies and placed to the credit of the British account. Mr. Albert Rathbone, who was in charge of foreign loans in the American Treasury Department from 1918 to 1920, deals with the contention that Great Britain's indebtedness was incurred in behalf of the Allied governments as follows:[14]

[13] F. P. A. Information Service. *The British-American Debt Controversy.*

[14] Rathbone, A. *Making War Loans to the Allies.* (Foreign Affairs. [N. Y.] Apr. 1926. p. 371-398).

This is an authoritative discussion of the process of granting loans to foreign governments that is indispensable to an accurate understanding of the problem.

"The fundamental cause of Great Britain borrowing from us while loaning to the Allies was that there were commodities here which Great Britain required for her own use and was obliged to pay for in dollars which she borrowed from us, and there were commodities within the British Empire required by the Allies which had to be furnished them and for which they could not pay except from loans. The same condition existed, though to a smaller extent, in the case of France, which, while borrowing both of the United States and of Great Britain, nevertheless made loans to Belgium, to Italy, to Russia and to other of the Allies.

"The position of the British Government as both a borrower and lender unfortunately has led to some misapprehension regarding our own loans. In some quarters there has apparently existed the erroneous impression that while we made loans to other Allied governments we did so only on British security, or the equally mistaken view that the dollars Great Britain borrowed of us enabled her to make loans to other Allied governments."

EVIDENCE OF SECRETARY MELLON

In a press release on August 24, 1922, Mr. Mellon answered inquiries on this point as follows:

"The statement that the United States Government virtually insisted upon a guarantee by the British Government of amounts advanced to the other Allies is evidently based upon a misapprehension. Instead of insisting upon a guarantee, or any transaction of that nature, the United States Government took the position that it would make advances to each government to cover the purchases made by that government and would not require any government to give obligations for advances made to cover the purchases of any other government. . . . Thus, the advances to the British Government, evidenced by its obligations, were made to cover its own purchases, and advances were made to the other Allies to cover their purchases."

In support of this statement Secretary Mellon quoted from a memorandum which the American Secretary of the Treasury handed to the British Ambassador in June, 1918. The Treasury memorandum reads as follows:

> "So far as the purchases of the Allied Governments for war purposes within the United States and its territories and insular possessions are concerned it is the expectation of the Secretary of the Treasury to continue as heretofore the advances necessary to enable the financing of such approved purchases. The Secretary of the Treasury quite agrees with what he understands to be the views of the Chancellor of the Exchequer that advances shall be made to each Allied Government for the commodities purchased in the United States by or for it and that no Allied Government should be required to give its obligations for such purposes when merely serving as a conduit for the supply of the materials so purchased to another Allied Government. Any other course would indeed be incompatible with what the Secretary of the Treasury deems a cardinal principle which should be followed in respect to such advances, namely, that the Allied Government for the use of which the commodity is purchased must give its own obligation therefor and the obligation of any other Allied Government can not be accepted by the United States as an equivalent."

Secretary Mellon's position was upheld by Mr. R. C. Leffingwell, who was Assistant Secretary of the Treasury in 1917. In an address on May 12, 1922, before the American Academy of Political and Social Science in Philadelphia he said, "In one case only did Great Britain make advances after the United States entered the war for purchases by any of the Allies in the United States—that of Russia—and in that case only to the extent of contracts entered into by Russia and guaranteed by Great Britain before the United States entered the war. The amount is not important."

EXPLANATION OF THE LONDON ECONOMIST

The London *Economist* of January 10, 1925, in an editorial entitled "Inter-Allied Debt" replies to the Balfour contention as follows:

> "Again, the fact that we are paying the United States is not in itself an argument for bringing pressure upon France, for it is not in any sense true, as is commonly supposed, that we borrow

from the United States merely to re-lend to France and Italy. Our loans from America are quite independent of our loans to our European Allies. America lent to Italy, to France and to Great Britain monies required to enable them to make necessary purchases from the United States, and far the larger part of what we bought in America consisted of wheat, meat, metals, explosives, oil, fuel, and other essentials, either of our national existence or of our war effort. But France had to borrow not only in America; the fact that the greater part of her pig-iron production was in German hands and that her mines were destroyed, meant that she had to buy iron and steel and coal in Great Britain, as well as woolen cloth, chemicals and a great variety of manufactured products for which we advanced her sterling credits. It is an accident that the amount of these advances to France and Italy for purchases in Great Britain amounted during the latter part of the war to about the same amount as we had borrowed for British needs in the United States. But we cannot argue that if we had not been compelled to lend to our European Allies we need not have borrowed from America; the reason we had to borrow from the American Government was that—large though our internal loans might be—we had no means of securing credit in dollars. It is true we might have raised further sums by continuing to sell conscripted American securities, but it was already becoming difficult to make further sales, and this method of raising money would have been increasingly costly. On the other hand, the United States Government, as soon as it came into the war, was determined to control the purchases of ourselves and our Allies. For all parties concerned, therefore, it was the cheapest and most convenient plan for us to borrow from the United States Government. It is quite certain that even if France had not had to make any further purchases in Great Britain in 1917 and 1918, we should still have been under the necessity of borrowing in dollars in the United States in order to feed Great Britain and to provide the material which America alone could supply."

HOW DEBTS AND REPARATIONS WERE FUNDED

There are three outstanding series of agreements that make up the inter-governmental obligations of the principal nations that participated in the war.

1. The adjustment that has been made in the German reparation obligations by the Dawes Plan.
2. The status of the debts due to the United States from foreign governments under the thirteen debt-funding agreements which have been negotiated.[15]
3. The agreements funding the obligations of France and Italy to Great Britain.

GERMAN OBLIGATIONS UNDER THE DAWES PLAN

The first category of debt settlement covers Germany's reparation obligations under the Treaty of Versailles. The Reparation Commission which was appointed at the Peace Conference fixed the total amount of German reparation and indemnity obligations at 136 billion gold marks, including the Belgian debt, or approximately 32 billion dollars. The failure of Germany to meet the heavy schedule of payments imposed by the Reparation Commission resulted in the Dawes Plan which substantially reduced, at least provisionally, the total amount of her obligations. While the Dawes Plan failed to fix the total amount of her obligations, it stipulated the annuities that Germany would be required to pay for an indefinite period, as follows:[16]

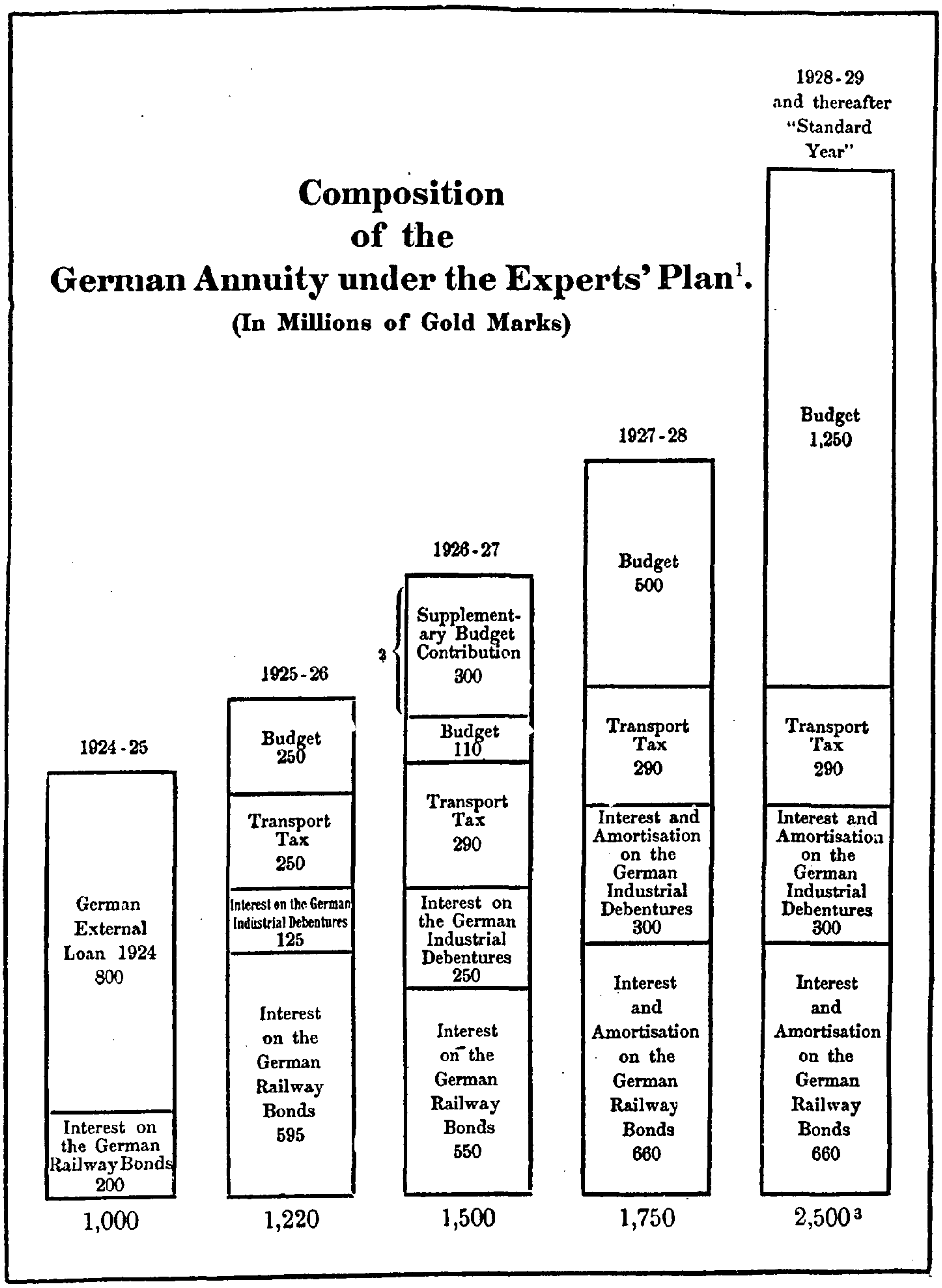
1924-25	1,000,000,000	gold marks
1925-26	1,220,000,000	" "
1926-27	1,500,000,000	" "
1927-28	1,750,000,000	" "
1928-29	2,500,000,000	" "

These payments, after deductions are made for administrative costs and various other claims that are given priority in the distribution of the total payments, are divided among the principal creditors as follows:

Country	*Per cent*	*In millions of dollars*
Great Britain	22	109.0
France	52	258.0
Italy	10	49.6
Belgium	8	39.6

[15]The agreements with the governments of France and Jugoslavia have not been ratified by the United States Congress.

[16]Reparation Comm. *Report of Agent General.* Nov. 30, 1926.



Composition of the German Annuity under the Experts' Plan[1].
(In Millions of Gold Marks)

The Annuity year runs from September 1st to August 31st.
The Plan fixed the third Annuity at 1,200 gold marks. It provided, however, for two contingent supplementary contributions, payable from the German budget in the fourth and fifth Annuity years, amounting in the aggregate to 500 million gold marks. By an agreement between the Reparation Commission and the German Government, executed September 8, 1926, the two contingent supplementary contributions have been replaced by a single definite payment of 300 million gold marks, to be made during the third Annuity year.
Subject to increase as from 1929-30 onwards, depending on the index of prosperity described in the Plan.

Reprinted from the report of the Agent-General for Reparation Payments, November 30, 1926.

The sources from which the annual payments under the Dawes Plan are to be derived can be seen in the accompanying chart which is reprinted from the Annual Report of the Agent-General for Reparation Payments for November 30, 1926. It should be noticed that the annuities thus far met by Germany have been less than half of the amounts required after 1928-29, the "standard year."

The annuities for the year 1924-25 were paid largely out of the proceeds of the German external loan, the balance being made up from interest on German Railway bonds. In the reparation year just closed, by far the larger portion of the payments came out of interest on the German Railway bonds and industrial debentures, and only 250 million marks came out of the German budget. In the "standard year," Germany will be required to raise 1,250,000,000 marks out of the budget—a sum larger than the total annual payments up to the present time. This will put such a heavy strain upon German financial resources that many observers doubt whether the enormous sums are within Germany's economic capacity.

There would seem to be some justification for the budget speech of Heinrich Koehler in the Reichstag on February 16, 1927, in which he expressed his misgivings in regard to reparation payments. In elaborating it he said:

"Germany will continue to do whatever is within its power to fulfill loyally the obligation she has undertaken, . . . at the present moment I see no possible way by which, even with the best intentions on her part, we can raise the sums payable under the Dawes Plan. Emphasis should be laid on the words 'at the present moment'. It was my duty as Finance Minister, in examining the whole financial situation, to consider also the obligations arising from the Dawes agreement, and I asked myself under what conditions we can meet these when once they have reached the maximum. In so doing I did nothing less than repeat the considerations which guided the Dawes experts in arriving at their conclusions."

U. S. DEBT-FUNDING AGREEMENTS

Of the twenty foreign nations to which the United States made advances during the period between April, 1917, and November, 1920, thirteen have negotiated debt-funding agreements with the United States. One nation, namely Cuba, has completely liquidated its debt, and there still remain six unsettled debts.

The thirteen nations which have entered into debt-funding agreements with the United States, the date of the agreement, the original net principal of their obligations, the funded interest and the funded principal are shown in the following table from the annual report of the Secretary of the Treasury for the year ending June 30, 1926. In the case of France and Jugoslavia, the debt-funding agreements have not yet been ratified.[17]

Country	*Date of Agreement*	*Original Principal (net)*	*Funded Interest*	*Funded Debt*
Belgium	Aug. 18, 1925	$ 377,029,000	$ 40,750,000	$ 417,780,000
Czechoslovakia	Oct. 13, 1925	91,879,000	23,120,000	115,000,000
Estonia	Oct. 28, 1925	12,066,000	1,763,000	13,830,000
Finland	May 1, 1923	8,281,000	718,000	9,000,000
France	April 29, 1926	3,340,516,000	684,483,000	4,025,000,000
Great Britain	June 19, 1923	4,074,818,000	525,181,000	4,600,000,000
Hungary	April 25, 1924	1,685,000	253,000	1,939,000
Italy	Nov. 14, 1925	1,647,869,000	394,130,000	2,042,000,000
Latvia	Sept. 24, 1925	5,132,000	642,000	5,775,000
Lithuania	Sept. 22, 1924	4,981,000	1,048,000	6,030,000
Poland	Nov. 14, 1924	159,666,000	18,893,000	178,560,000
Rumania	Dec. 4, 1925	36,128,000	8,461,000	44,590,000
Jugoslavia	May 3, 1926	51,037,000	11,812,000	62,850,000
		$9,811,094,000	$1,711,259,000	$11,522,354,000

[17] U. S. Treas. Dept. *An. Rept. on State of Finances.* 1919-20. p. 56.

UNFUNDED OBLIGATIONS

In addition to these thirteen nations there are six nations owing obligations to the United States which have not made definite arrangements for the settlement of their debt, as follows:

Armenia	$ 16,000,000
Austria	32,700,000
Greece	18,750,000
Liberia	34,000
Nicaragua	26,000
Russia	270,599,000

Although Nicaragua has not entered into a formal debt-funding agreement with the United States she has been consistently paying her obligations. At the present time more than 85 per cent of the original amount has been paid and she is steadily reducing the balance of her indebtedness by regular monthly instalments.

Special considerations have also entered into the debt-funding agreement with France. The French Parliament has not yet ratified the Mellon-Berenger agreement, but the French Government has consistently met its annual payments on the debt to the United States arising from the purchase of surplus war materials by the payment to the United States of annuities of $20,000,000 a year. On March 2, in compliance with a request made by M. Poincaré to Secretary Mellon, the Treasury announced that the United States had accepted the French offer to pay to the United States the sum of $10,000,000 a year in addition to the regular payments on the debt for the purchase of surplus war materials. The offer was made on condition that it should constitute no obligation for the future and in no way prejudice the attitude which the French Chamber might wish to take later with reference to the ratification of the debt settlement. The payment of the additional $10,000,000, which will bring the total French payment to the United States up to $30,000,000 a year—the amount specified in the Mellon-Berenger agreement—will be made on June 15, 1927. According to the terms of the agreement, "after a debt-funding agreement has been ratified by the Congress of the United States and the French Government, it is understood that the said sum of $10,000,000 will be credited to the annuities provided for in such agreement."

Secretary Mellon, in his reply to M. Poincaré, asserted that "the United States Government will be pleased to receive the sum specified in accordance with the understanding outlined in your letter."

Thus, while there has been no formal ratification on either side of the Mellon-Berenger agreement, the French Government after June 15, 1927, will be making the regular payments to the United States that are stipulated in the funding agreement. A similar arrangement has been made by France with Great Britain, although the French Parliament has not yet acted on the British settlement.

FIRST STEPS TOWARD SETTLEMENT

The Liberty Loan Acts authorized Congress not only to make advances to European governments, but also to negotiate the terms upon which these advances were to be paid. The obligations received by the United States from the borrowing governments were in the form of ordinary commercial notes bearing interest for the most part at the rate of 5 per cent.* Nevertheless, it seems to have been taken very largely for granted on the part of the Allied governments that the United States would pursue a policy of debt cancellation —or at least cancellation to the extent of their pre-armistice borrowings.

The war left so many important problems that the question of inter-Allied indebtedness did not become a problem of immediate concern for two or three years after the signing of the Treaty of Versailles. During this time there was considerable correspondence between representatives of the United States and those of the debtor governments, a large part of which has been reprinted in the Annual Report of the Secretary of the Treasury for the fiscal year ending June 30, 1926. From this correspondence it is clear that the United States Government intended to insist upon the funding of the war debts.

*See page 27.

President Wilson, in replying to a communication from Mr. Lloyd George on August 5, 1920, said:[18]

> "The Secretary of the Treasury is authorized by United States law to arrange for the conversion of the demand obligations of the British Government into obligations having a fixed date of maturity in accordance with the agreement of the British Government to make such an exchange on demand contained in its existing obligations. In connnection with such exchange the Secretary of the Treasury has authority to arrange for the postponement of interest payments. No power has been given by the Congress to any one to exchange, remit or cancel any part of the indebtedness of the Allied Governments to the United States represented by their respective demand obligations. It would require congressional authority to authorize any such dealing with the demand obligations. . . . . It is highly improbable that either Congress or popular opinion in this country will ever permit a cancellation of any part of the debt of the British Government to the United States in order to induce the British Government to remit, in whole or in part, the debt to Great Britain or France, or any other of the Allied Governments, or that it would consent to a cancellation or reduction in the debts of any of the Allied Governments as an inducement toward a practical settlement of the reparation claims."

THE POLICY OF CONGRESS

The Congressional attitude toward the payment of the debts was not expressed until 1922 when Congress passed an act creating a World War Foreign Debt Commission, and laid down the principles which were to govern the American representatives in the negotiations of debt settlements. The significant features of this act were the instructions to the American Debt-Funding Commission, which empowered the Commission, with the approval of the President, to fund the war and relief obligations of the various foreign governments "in such form and on such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security as shall be deemed to the best interest of the United States of America." And it was provided "that nothing contained in this Act shall be construed to authorize or empower the Commission to extend the time of the maturity of any such bonds or other obligations due the United States of America by any foreign government beyond June 15, 1947, or to fix the rate of interest at less than 4¼ per cent per annum." The Act further provided that the Commission had no authority to exchange bonds or other obligations "of any foreign government for those of any other foreign government or cancellation of any part of such indebtedness except through payment thereof."[19]

The first change in the attitude of Congress was contained in an act authorizing the British Debt Settlement. Great Britain was the first debtor nation to send a debt-funding commission to Washington. This mission consisted of Mr. Stanley Baldwin, then Chancellor of the Exchequer, and Mr. Montagu C. Norman, Governor of the Bank of England. In the course of the negotiations, held in Washington in January, 1923, the British representatives protested that it was impossible for their country to arrange for the payment of the whole indebtedness within the twenty-five years specified in the act of Congress creating the Debt-Funding Commission. They also protested against the interest charge of 4¼ per cent which had been stipulated by Congress, in view of the fact that the market rate had fallen to about 3½ per cent. The American Commission conceded these points and the official terms of the settlement provided for the funding of the entire amount of the principal and unpaid interest amounting altogether to about $4,600 million over a period of 62 years. Interest was fixed at the rate of 3 per cent for the first ten years, and 3½ per cent for the remaining 52 years, making the total annual payment, including principal and interest, about $160 million a year for the first ten years, and about $180 million during the remaining 52 years.

In accepting these terms the American Commission exceeded its authority under the provisions of the act, and was forced to request an amendment from Congress. This amendment, approved on February 28, 1923, provided for enlarging the Com-

[18] U. S. Treas. Dept. *An. Rept. on State of Finances.* 1925-26. p. 72.

[19] Moulton & Pasvolsky. *World War Debt Settlements.* U. S. *Statutes at Large.* Vol. 42, p. 363.

mission to eight members, under the Chairmanship of the Secretary of the Treasury. With the exception of the Chairman, the members were to be appointed by the President, by and with the advice and consent of the Senate, with the provision that not more than four members so appointed should be from the same political party. This act marked the first step away from the original policy outlined by Congress, and the British debt settlement was accepted for a time as the basis for negotiations with other countries.

The official American attitude toward the settlement with Great Britain was expressed by President Harding on February 7, 1923, in the following words:

> "The call of the world today is for integrity of agreements, the sanctity of covenants, the validity of contracts. Here is the first clearing of the war-clouded skies in a debt-burdened world, and the sincere commitment of one great nation to validate its financial pledges and discharge its obligations in the highest sense of financial honor."

"CAPACITY TO PAY"

The Act of February 7, 1923, conferred larger discretionary powers upon the American Debt-Funding Commission. In carrying out these powers the Commission formulated the principle of "capacity to pay" as the basis of negotiating debt-funding agreements. This was expressed in a statement issued by the American Commission on October 1, 1925, with reference to the French negotiations: "We believe it is fully recognized by the Commission that the only basis of negotiations fair to both peoples is the principle of the capacity of France to pay." The principle of "capacity to pay" as interpreted by the Debt-Funding Commission is stated in the Annual Report of the Secretary of the Treasury for the year ending June 30, 1925:[20]

> "While the integrity of international obligations must be maintained, it is axiomatic that no nation can be required to pay to another government sums in excess of its capacity to pay. The Commission in its settlement with Great Britain, made on June 19, 1923, and in subsequent negotiations or settlements has adhered to the principle that the adjustments made with each Government must be measured by the ability of the particular Government to put aside and transfer to the United States the payments called for under the funding agreement.
>
> "Nor does the principle of capacity to pay require the foreign debtor to pay to the full limit of his present or future capacity. It must be permitted to preserve and improve its economic position, to bring its budget into balance and to place its finances and currency on a sound basis, and to maintain, and if possible to improve the standard of living of its citizens. No settlement which is oppressive and retards the recovery and development of the foreign debtor is to the best interest of the United States or of Europe."

[20]U. S. Treas. Dept. *An. Rept. on State of Finances.* 1924-25. p. 53.

The application of this principle to particular debt settlements is explained in the Secretary's report as follows:

> "The Commission has accordingly permitted the foreign debtor to repay the principal amount of its debt irrespective of the maturity or the character of the indebtedness over a period of 62 years, or nearly two generations. There is no government unable to make the principal payments required on such a basis. It is felt that the lack of capacity of a government to fund its debt on the same terms as Great Britain can be readily met by appropriate adjustment or modification of the rates of interest to be paid during the period of repayment of principal. And in examining the capacity of payment the Commission looks not only at the immediate capacity, but estimates so far as it has been able to do so, the future development of the nation concerned."

THE NATURE OF THE FUNDING AGREEMENTS

In many formal respects the debt-funding agreements with the various European countries are practically the same. Their common characteristics are:

1. Financial clauses which fix the total amount of the funded indebtedness, the interest rate and the annuities the debtor government will be required to pay.

2. The distribution of these annuities over a period of sixty-two years.

3. The use of bonds payable to the United States on the part of the debtor government. These bonds are exempt from taxation by the foreign government, and the United States has the privilege of exchanging them with the debtor governments for marketable obligations.

This last provision for the marketing of the obligations is of importance in view of the objections made by France to the ratification of the Mellon-Berenger agreement. The French Government states that:[21]

"... France will deliver definitive engraved bonds to the United States in accordance herewith within six months of receiving notice of any such request from the Secretary of the Treasury of the United States, and pending the delivery of the definitive engraved bonds will deliver, at the request of the Secretary of the Treasury of the United States, temporary bonds or interim receipts in form satisfactory to the Secretary of the Treasury of the United States within thirty days of the receipt of such request, all without expense to the United States. The United States, before offering any such bonds or interim receipts for sale in France will first offer them to France for purchase at par and accrued interest, if any, and France shall likewise have the option, in lieu of issuing any such bonds or interim receipts, to make advance redemption, at par and accrued interest, if any, of a corresponding principal amount of bonds issued hereunder and held by the United States. France agrees that the definitive engraved bonds called for by this paragraph shall contain all such provisions, and that it will cause to be promulgated all such rules, regulations, and orders as shall be deemed necessary or desirable by the Secretary of the Treasury of the United States in order to facilitate the sale of the bonds in the United States, in France, or elsewhere, and that if requested by the Secretary of the Treasury of the United States, it will use its good offices to secure the listing of the bonds on such stock exchanges as the Secretary of the Treasury of the United States may specify."

ANNUAL PAYMENTS TO THE UNITED STATES

The aggregate average annual payments of Great Britain, France, Italy and Belgium to the United States under the debt-funding agreements, and the aggregate average annual payments for all the thirteen countries that have entered into debt-funding agreements with the United States are shown in the following tables:[22]

Total average annual payments of Great Britain, France, Italy and Belgium to the United States.

First 10 years	$222,000,000
Second 10 years	329,000,000
Third 10 years	348,000,000
Fourth 10 years	359,000,000
Fifth 10 years	374,000,000
For the last 12 years	394,000,000

Total average annual payments under debt-funding agreements with thirteen countries.

First 10 years	$233,000,000
Second 10 years	347,000,000
Third 10 years	365,000,000
Fourth 10 years	377,000,000
Fifth 10 years	393,000,000
Last 12 years	414,000,000

CANCELLATION OF INDEBTEDNESS

The original obligations of foreign governments held by the United States Treasury called for a 5 per cent rate of interest, and before the funding of the debts accrued interest on all these obligations was entered on the books of the Treasury at this rate. At the time the debt-funding agreements were made this accrued interest was cut down by calculating it upon the basis of 4¼ per cent, in the case of the first settlements, and 3 per cent throughout a period of time in the case of the later settlements. The annual funded principal of the debt was therefore somewhat smaller than the total amount prior to the final agreements.

This obviously represents a certain cancellation of the indebtedness of the debtor countries, if the interest rate of 5 per cent is considered to be the "fair" and "normal" rate of interest. When the debt-funding agreements were negotiated, further cancellations were made by reducing the current rate of interest to 3½ per cent, and in the case of Italy to as low as .4 of 1 per cent. In the first series of debt-funding agreements which were negotiated—those with Great Britain, Finland, Hungary, Poland, Esthonia, Latvia, Lithuania, Czechoslovakia and Rumania—the interest was fixed at 3 per cent for the first years and at 3½ per cent for the later years, making an average interest rate over the whole period of sixty-two years of about 3.3 per cent. The average interest rate over the period of sixty-two years is shown, in the case of the other countries, as follows: Belgium, 1.8 per cent; France, 1.6 per cent; Jugoslavia, 1 per cent; Italy, .4 of 1 per cent.

[21] Reprints of the Debt-Funding Agreements can be found in the *Annual Reports on the State of Finances* by the Secretary of the Treasury. Also in the Annex, Moulton & Pasvolsky, World Debt Settlements.

[22] These figures are only approximate because of adjustments which have been made in order to put the dates of payments on a comparable basis.

This reduction of the current interest rate below the original rate of 5 per cent, and again below the rate which was later established by the Treasury of 4¼ per cent, represents a substantial cancellation of indebtedness, if the original rate of interest is taken as the reasonable rate from which interest should be computed. The amount of the cancellation obviously depends upon whether interest is computed at 5 per cent, at 4¼ per cent or at 3 per cent. The treasury on separate occasions has defended each of these as a "fair" rate of interest.

WHAT IS A "FAIR" RATE OF INTEREST?

Three methods have been advanced as a basis for determining what is a fair rate of interest to charge the European debtor. In the original obligations taken by the United States an interest rate of 5 per cent was stipulated. Secretary Mellon, in his answer to a letter from Mr. Frederick W. Peabody on July 14, 1926, defended the 5 per cent interest rate in the following words:[25]

"The debt settlements have been negotiated on the basis of the capacity of the particular debtor to pay. None could pay its signed obligations as called for by their terms. Accordingly, payment of the principal had to be extended and the period of 62 years set in the British agreement has been followed in all other agreements.

"If the debtor nations paid the United States a rate of interest on the postponed instalments equivalent to the cost to us, we would receive in present value payment of the full debt. Since, however, such an interest rate is beyond the capacity of any of our debtors to pay, the United States has of necessity accepted less than full value of the debt to the extent the interest to be received under the settlement is below the cost of money to the United States, now about 4¼ per cent.

"Looking at the matter from the standpoint of the debtor nation, the debtor has received a concession in its debt to the extent the interest to be paid by it is below the cost of money to the debtor. The obligations taken by us from our debtors carry the interest rate of 5 per cent per annum. Since this rate is less than most of the debtor nations now have to pay for money, the rate of 5 per cent is certainly a fair share of the real burden put upon them by the settlements. . . .

"France's after-the-war indebtedness with interest amounts to $1,655,000,000. The settlement negotiated by Ambassador Berenger with the American Debt Funding Commission has a present value of $1,681,000,000."

The second method of arriving at what is a fair rate of interest is to consider the original cost of money to the United States. The later Liberty Bond issues carried an interest rate of 4¼ per cent. This, in other words, was the rate the United States was forced to pay on the money it loaned to the European governments, and it is therefore taken as the fair rate for the European governments to pay to the United States.

The third manner of determining what is a fair rate of interest is to consider what the cost of money to the United States will be over a period of sixty-two years. This has been estimated by Secretary Mellon to be about 3 per cent. In a statement to the Ways and Means Committee of the House of Representatives on May 20, 1926, Secretary Mellon defended the 3 per cent rate as follows:[26]

"Although the United States has outstanding a substantial amount of Liberty Bonds bearing 4¼ per cent interest, a large part of the government's requirements are now being financed at a much lower rate. The average cost of money to the United States probably will continue to decline. Securities with high interest rates issued during the war will be paid, redeemed or refunded. If we assume that the average cost of money to the United States for the next 62 years will approach a 3 per cent basis, and if we determine the present value of the French annuities, on that basis we arrive at a figure which would approximate their actual value today.

"The present value of the French payments on a 3 per cent basis is 2,734 million dollars. This is approximately 82 per cent of the principal amount of the $3,340 million French debt."

It should be borne in mind that Secretary Mellon, in making this statement was speaking to a committee of the House of Representatives which could be assumed to look with disfavor upon any large cancellation of the French indebtedness. When defending the 5 per cent rate of interest quoted above, Secretary Mellon was speaking against a plea for cancellation on the part of Mr. Frederick W. Peabody.

[25] U. S. Treasury Press Release, July 14, 1926.

[26] U. S. Treas. Dept. *An. Rept. on State of Finances.* 1925-26. p. 251.

There is still another method, aside from those mentioned by the Treasury Department, which is considered in many quarters as a much more reasonable way of determining what is a fair rate of interest, namely, the current return upon other obligations of the several foreign governments. If, for example the French Government bonds were selling in the market on a 7 per cent basis, the United States should insist upon being paid a 7 per cent bond. On this basis, a fair rate of interest on the war obligations would be different for each country. If the bonds of Great Britain were selling on the market for 4.5 per cent, those of France for 7 per cent, those of Belgium for 6.5 per cent and those of Italy for 7 per cent, in each case the rate of return on the government obligations should be comparable to the ordinary commercial rate on the bonds of the government in question. The present value of the bond obligations would, therefore, be measured in terms of the current return on comparable obligations of the same government.

The following tables show the principal amount of the debts of the various countries having debt-funding agreements with the United States, the total amount to be received over a period of sixty-two years, and the present value of the debts of the various countries computed upon the basis of a 3 per cent, 4.25 per cent, and 5 per cent interest rate. It will be noted that if 3 per cent is used as the cost of money to the United States, according to Secretary Mellon's statement before the Ways and Means Committee on May 20, 1926, eight of the thirteen countries which have funded their debts to the United States are paying more than the total principal and interest at the rate of 3 per cent. It is apparent, therefore, that in the case of these countries, upon the basis of Secretary Mellon's statement of May 20, there has been no cancellation, but, on the contrary, there is an over-charge of .3 of 1 per cent over a period of sixty-two years. If 4.25 per cent is taken as the fair rate, there has been a substantial cancellation of a portion of the indebtedness, ranging from 75 per cent in the case of Italy, to 17 per cent in the case of England. If 5 per cent is taken as the fair rate, according to Secretary Mellon's statement to Mr. Frederick W. Peabody, the cancellation in the case of all the countries is obviously much larger, ranging from 79 per cent in the case of Italy to 28 per cent in the case of Great Britain.

The principal amounts that the debtor governments are required to pay under the thirteen debt-funding agreements, the aggregate interest over a period of sixty-two years and the total principal and interest are shown by the following table:[27]

Country	*Principal*	*Interest*	*Total*
Great Britain	$ 4,600,000,000	$ 6,505,965,000	$11,105,965,000
Finland	9,000,000	12,695,055	21,695,055
Hungary	1,939,000	2,754,240	4,693,240
Poland	178,560,000	257,127,550	435,687,550
Esthonia	13,830,000	19,501,140	33,331,140
Latvia	5,775,000	8,183,635	13,958,635
Lithuania	6,030,000	8,501,940	14,531,940
Czechoslovakia	115,000,000	197,811,433	312,811,433
Rumania	44,590,000	77,916,260	122,506,260
Belgium	417,780,000	310,050,500	727,830,500
France	4,025,000,000	2,822,674,104	6,847,674,104
Jugoslavia	62,850,000	32,327,635	95,177,635
Italy	2,042,000,000	365,677,500	2,407,677,500
	$11,522,354,000	$10,621,185,993	$22,143,539,993

The following table shows the average interest rate over a period of 62 years, the present value of the obligations at the respective rates of interest of 3 per cent, 4.25 per cent and 5 per cent and the percentage of cancellation or overcharge as the case may be upon the basis of these respective rates of interest.

[27] Moulton & Pasvolsky, p. 94.

Country	Average interest rate	Present Value at 3 per cent	Percentage of overcharge	Percentage of cancellation	Present Value at 4¼ per cent	Percentage of cancellation	Present Value at 5 per cent	Percentage of cancellation
Great Britain	3.3%	$4,922,702,000	7%		$3,788,470,000	17%	$3,296,948,000	28%
France	1.6	2,734,250,000		32%	1,996,509,000	52	1,681,369,000	58
Italy	0.4	782,321,000		62	528,192,000	75	426,287,000	79
Belgium	1.8	302,239,000		28	225,000,000	46	191,766,000	54
Poland	3.3	191,283,00	7		146,825,000	18	127,643,000	29
Czechoslovakia	3.3	124,995,000	8		91,964,000	21	77,985,000	33
Rumania	3.3	48,442,000	8		35,172,000	21	29,507,000	34
Jugoslavia	1.0	30,286,000		52	20,030,000	32	15,919,000	75
Esthonia	3.3	14,798,000	7		11,392,000	18	9,915,000	18
Finland	3.3	9,630,000	7		7,413,000	18	6,452,000	18
Lithuania	3.3	6,452,000	7		4,967,000	18	4,322,000	18
Latvia	3.3	4,693,000	7		4,755,000	18	4,137,000	18
Hungary	3.3	2,076,000	7		1,596,000	18	1,388,000	19

GREAT BRITAIN'S DEBT AGREEMENTS

Great Britain, because she is both a debtor and a creditor, is in a peculiarly strategic position to espouse proposals for the cancellation of the debts. Britain is a debtor to the United States to the extent of $4,600,000,000. On the other hand, she is the creditor of a large number of nations. The amount of Great Britain's advances to her Allies during the war was approximately $10,000,000,000. Her chief debtors consisted of Russia, France and Italy.

Great Britain's first official declaration of policy with regard to the handling of the inter-Ally debts was made by Mr. Balfour, British Secretary of State for Foreign Affairs, on August 1, 1922. The essential policy outlined in the now famous Balfour Note is stated as follows:

> "The policy favored by His Majesty's Government is, as I have already observed, that of surrendering their share of German reparation, and writing off, through one great transaction, the whole body of inter-Allied indebtedness. But, if this be found impossible of accomplishment, we wish it to be understood that we do not in any event desire to make a profit out of any less satisfactory arrangement. In no circumstances do we propose to ask more from our debtors than is necessary to pay to our creditors. And, while we do not ask for more, all will admit that we can hardly be content with less."

Failing to secure a general cancellation of inter-governmental indebtedness, and after having made an agreement with the United States for the funding of its debt, Great Britain in the spring of 1924, opened negotiations with all three of her principal war debtors. The net result of her negotiations with Russia was the indefinite postponement of any settlement. Her negotiations with France and Italy were more successful and have resulted in debt-funding agreements which follow the general pattern of the American agreements.

The funded principal of the Italian debt to England amounts to £610,840,000. By the terms of the Anglo-Italian debt-funding agreement, Italy binds herself to make the following payments to Great Britain:[28]

	Approx.
For the first financial year	£ 2,000,000
For the two following financial years	4,000,000
For the four following financial years	4,250,000
For the succeeding years until 1986-1987	4,500,000
For the financial year 1987-1988	2,250,000

In the case of France, the funded principal of the French debt to Great Britain is £653,127,900. The payments provided in the Anglo-French funding agreements are as follows:[29]

	Approx.
1926-27	£ 4,000,000
1927-28	6,000,000
1928-29	8,000,000
1929-30	10,000,000
1930-31 to 1956-57, inclusive	12,500,000
1957-58 to 1987-88, inclusive	14,000,000

[28] Ibid. p. 427.

[29] *French War Debt: Agreement for the Settlement of the War Debt of France to Great Britain.* London. H. M. Stationery Office. 1926. Cmd. 2692 (Official text)

BRITISH CONCESSIONS

In making these agreements with her debtors, Great Britain followed rigidly the logic of the Balfour declaration, to wit, that Great Britain would in no case ask more from her debtors than it was necessary for her to pay to her creditors. In both the French and Italian agreements a provision was inserted by which Great Britain agreed to reimburse the Italian and French governments for all payments made to Great Britain in excess of the amount Great Britain was required to pay the United States. The provision in the Anglo-Italian agreement is as follows: "If at any time it appears that the aggregate payments effectively received by Great Britain under Allied war debt-funding agreements and on account of reparations or of liberation bonds exceed the aggregate payments effectively made by Great Britain to the government of the United States of America in respect of war debts, an account shall be drawn up by the British Treasury, interest at 5 per cent being allowed on both sides of the account, and if that account shows that the receipts exceed the payments, Great Britain will credit Italy against the payments next due by Italy under Article 1 of this agreement, with such proportion of that excess as the payments effectively made by Italy, under Article 1 of this agreement, bear to the aggregate sums effectively received by Great Britain under all Allied war debt-funding agreements. Thereafter a similar account will be drawn up by the British Treasury each year and any further excess of the receipts over the payments shall each year give rise to a credit to Italy of a proportion of such excess calculated in the manner indicated above. On the other hand, any deficit shall be made good by an increase in the payments next due by Italy up to a similar proportion of such deficit within the limit of the total amount of the credits already allowed to Italy under this article."

In the settlement with France, Great Britain also acknowledged the dependence of the French debt payments upon France's reparation receipts from Germany. The French Government attempted to secure these concessions from the United States, but the American representatives insisted that the obligations of France to the United States were in no way connected with German obligations to France under the Dawes Plan. The recognition of the dependence of the French payments to Great Britain upon German reparations was not inserted into the main text of the funding agreement, but in an exchange of notes between M. Caillaux and Mr. Churchill, the British Chancellor acceded to the request made by the French Minister of Finance. M. Caillaux, in his note to the British Chancellor of the Exchequer, said:

> "In assuming the responsibility of signing the agreements for the settlement of the French war debt to Great Britain and thereby accepting the payment of the annuities fixed on the sole credit of France, I feel bound to explain that in the opinion of the French Government, the future possibility of making payments and transfers across the exchange of the amounts required to assure the fulfillment of the debt settlements with the United States and Great Britain inevitably depends largely on the continued transfer of receipts from Germany under the Dawes Plan. If, therefore, for reasons outside the control of France, such receipts should cease completely, or to an extent greater than one-half, a new situation would be created and the French Government reserves the right in such an event of asking the British Government to reconsider the question in the light of all the circumstances then prevailing.
>
> "It is subject to this express reservation that I am ready to sign the agreement which we have drawn up."

Mr. Winston Churchill replied as follows:[30]

> " . . . His Majesty's Government must maintain that the position of the settlement which we have arrived at of the French war debt to this country depends, like that of the debt itself, on the sole credit of France. You will realize that in the hypothetical circumstances that you mention Great Britain would have already suffered a diminution of the receipts from the Dawes scheme, which we have taken into account in arriving at the various debt settlements, and this is one of the factors which would have to be borne in mind in the event of any reconsideration of the question being desired by the French Government. Subject to this I do not object to the statement that you make.

[30]Idem.

> "In the event of any modification being made, I should expect, in order to secure equal treatment among creditors, that other creditors of France would take into consideration a corresponding modification of the debts due to them."

Although debt-funding agreements have been negotiated between the chief debtor and creditor nations, little attempt has yet been made to solve the economic problems involved in repayment. From an American point of view there are two distinct aspects to this economic problem. The first is the relation of foreign debt payments to the public finance of the United States. What effect will the collection of the war debts have upon the American taxpayer?

The second aspect of the question involves the problem of how these payments are to be effected. Since ultimately international accounts are balanced by the shipment of goods from the debtor to the creditor country, what effect will this have upon American commerce and industry?

ECONOMIC ASPECTS OF THE DEBT PROBLEM

Since a large proportion of the public indebtedness of the United States was acquired under the Liberty Loan Acts for the purpose of loaning money to the Allied governments, and since whatever payments are received from foreign governments on account of their debt to the United States will be applied to the retirement of public debt, it is necessary to review briefly the condition of the American Treasury, the size of the total debt and the provisions which have been made for its liquidation, in order to get a true picture of the relations between debt collection and the annual taxes that American citizens are required to pay to the Federal Treasury.

Before the war the public debt of the United States was negligible, amounting to only about $1,000,000,000. During and immediately after the war, however, the United States, in order to meet its heavy war-time expenditures and to loan money to its Allies, accumulated a heavy burden of public indebtedness amounting at its peak, in August, 1920, to more than $26,000,000,000. Since 1920 this indebtedness has been decreased by approximately $6,000,000,000. This rapid reduction of the public debt has been accomplished through the application of the following funds:[31]

1. The receipts of the Government through the sinking fund, which was established by Congress in order to provide for the eventual liquidation of the public debt, and composed of (a) a regular budget charge of 2½ per cent of the war debt, not represented by foreign loans (about $10,000,000,000); (b) the annual interest which would have been paid on the retired Liberty Bonds had they been left outstanding.

From 1920 to 1926, inclusive, $2,743,000,000 of the public debt was liquidated through these ordinary budget charges, of which the sinking fund provided about $1,740,000,000 of the total. Only $506,686,000 was received from foreign governments under the debt settlements during this period. The annual retirements chargeable against ordinary receipts for the period 1920-1926, inclusive, is shown as follows:

1920	$ 78,746,350
1921	427,123,566
1922	422,694,600
1923	402,850,491
1924	457,999,750
1925	466,538,114
1926	487,376,051
	$2,743,328,922

2. In addition to the debt retirement chargeable against ordinary receipts are the reductions in the public debt which have resulted from the application of the annual surplus to debt reduction. For the past six years Federal receipts have exceeded the ordinary expenditures each year, and this "surplus" has been consistently applied to the reduction of the public debt. The annual surplus that has been applied to the reduction of the public

[31] U. S. Treas. Dept. *An. Rept. on State of Finances.* 1925-26. p. 44-5.

debt from 1920 to 1926, inclusive, is shown as follows:

1920	$ 212,475,198
1921	86,723,772
1922	313,801,651
1923	309,657,460
1924	505,366,986
1925	250,505,238
1926	377,767,817
	$2,056,298,122

3. A further source of debt retirement within the last six years has been through reductions in the net balance in the general fund. The money in the general fund is made up from the sale of properties of the Government. After the war, the United States found itself with a large supply of war property of no immediate use, and this was sold to private corporations and placed in a general fund. As a consequence there has been about $1,041 million of public debt liquidation by the application of this general fund to the public debt. This, it should be noticed, is only a temporary source of debt reduction and the amounts paid from this source have steadily decreased since 1920. The public debt retirements through the application of the proceeds of the general fund to debt reduction for the years 1920-26, inclusive, are shown as follows:

1920	$ 893,963,145
1921	191,976,423
1922	277,572,593
1923	98,833,608
1924	135,527,640
1925	17,575,749
1926	7,833,705
	$1,041,662,801

The record of the United States in reducing the public debt at the rate of almost a billion dollars a year for the past six years is unprecedented in the history of public finance. It has been made possible only by the applications to debt reduction of the balance in the general fund and the surplus. These are only temporary sources of debt reduction, however, and it is likely that the United States will in the future be forced to rely upon the sinking fund and payments from foreign governments under the debt settlements for the reduction of the public debt.

The funds to be received from foreign governments under the debt settlements have not been made a part of the budget. From 1923 to 1926, inclusive, more than 503 million dollars received from foreign governments have been applied to debt reduction. It is also the stated policy of the Treasury to use all funds received under the debt settlements for the purpose of retiring the debt. Under the present debt-funding agreements, the United States is due to receive from foreign governments for the first five years an average of $213 million a year; for the next forty-five years, an average of $357 million a year; and for the last twelve years of the agreements, an average of $414 million a year. If the debt-funding agreements are executed they will thus provide a substantial annual fund for the reduction of the public debt.

The necessary charges on the public debt at the present time amount to about 21 per cent of all the expenditures of the Federal Government. The effect of the payment of the war debts would be to reduce the public debt, which would consequently bring about a reduction in the annual interest charges. If the annual payments of the foreign debts were received by the United States it would reduce by approximately 10 per cent the amount that American citizens would be required to pay for the general expenses of the government. On a per capita basis the taxpayers would be relieved of paying from two to four dollars each year.

THE EXCHANGE PROBLEM

More important to the American taxpayer than the immediate effect of the liquidation of the war debts are the economic results which can be expected from the execution of the debt-funding agreements. International obligations of this magnitude are not liquidated by the shipment of gold from the debtor to the creditor country. In order for the debtor governments to pay their obligations to

the United States there are two problems involved. First, it is necessary for the debtor governments to raise by taxation sufficient funds in excess of their ordinary requirements to meet their payments to the United States. And secondly, since the money thus raised by taxation is in the currency of the debtor governments, it is necessary for them to change their sterling, francs or lira into American dollars. Assuming that the first requirement is met and the debtor governments have raised by taxation sufficient sums to pay their annuities, how can they secure dollars with which to pay the American Government?

In the long run there is only one way —by exporting either goods or services, or both, in excess of the value of the goods and services imported. The United States must, therefore, import in excess of the amounts she exports. This process need not consist of a direct exchange of goods and services between the debtor country and the United States. France, for example, may buy sterling and sell it in London for dollars and then transfer the dollars to the United States. The important fact is that the debtor nation must secure dollar exchange either directly or indirectly—i. e. that it must have an export balance on the total of visible and invisible items and the United States must have an import balance. This has led many to believe that the receipt of debt payments by the United States would flood the American market with foreign goods, with disastrous results to American industry.

PRIVATE DEBTS REPLACE PUBLIC DEBTS

While there may be a large element of truth in this analysis, it overlooks many complicated factors in the problem. There is still another method whereby foreign governments can secure American dollars —by private borrowings in the United States. While it is true in the long run that the settlement of the debts as well as the payment of interest and principal on the sums privately borrowed from the United States will have to be paid in goods and services, the process of borrowing may nevertheless go on for an indefinite period of time.

Within the last four years since the first payments on account of the war obligations were made to the United States, private American bankers have loaned abroad in much greater amounts than the government has received upon the obligations of the debtor countries. As long as these private loans continue, foreign governments will have no difficulty in securing dollar exchange with which to meet their annual debt payments to the United States. But while they could eventually liquidate their debts in this manner, their private indebtedness to American bankers would be correspondingly increased.

There can be no real liquidation of the debts as long as this private borrowing continues. The net effect of such transactions is only to change the form of the debts from public to private obligations.

THE DEBTS AND THE BALANCE OF INTERNATIONAL PAYMENTS

The difficulty of expecting the debtor governments to meet their obligations to the United States in terms of goods is seen by referring to the trend in the balance of international payments. For a number of years the United States has had a heavy export, or so-called "favorable" balance, of international payments. In 1925, for example, there was a favorable balance of $666,000,000 on the amount of recorded merchandise, according to the figures of the United States Department of Commerce. When the so-called "invisible" items are taken into consideration, this favorable balance is considerably reduced, but even taking these into consideration there was a total favorable balance on our current items entering into the international account of $323,000,000. This large export balance is consistent with the general trend of American foreign trade since 1919, as shown by the following table prepared by the National Industrial Conference Board, upon the basis of information published by the United States Department of Commerce.[32]

[32]Nat. Ind. Conf. Bd. *Inter-Ally Debts and the United States.* p. 192.

	In millions of dollars					
	1919	1920	1921	1922	1923	1924
Credits						
1. Exports of merchandise	$7,920	$8,229	$4,485	$3,867	$4,208	$4,661
2. Exports of gold (net)	160	....	....	....	....	....
3. Exports of silver (net)	152	26	....	....	....	36
4. Exports of U. S. Currency (net)	91	103	....	....	50	....
5. Ocean (freight) charges receivable (net)	93	93	33	7	....	8
6. Total credits on capital accounts	565	621	383	676	943	851
7. Total credits	$8,981	$9,072	$4,901	$4,550	$5,201	$5,546
	1919	1920	1921	1922	1923	1924
Debits						
8. Imports of merchandise	$3,904	$5,279	$2,509	$3,113	$3,819	$3,681
9. Imports of gold (net)	....	50	667	238	294	258
10. Imports of silver (net)	....	....	11	8	2	....
11. Imports of U. S. currency (net)	....	....	100	....	....	50
12. Ocean freight charges payable (net)	....	....	....	....	8	....
13. Immigrants' remittances and relief	600	700	500	400	360	355
14. Tourists' expenditures (net)	50	150	200	300	400	500
15. Total debits on capital account†	3,345	1,750	1,142	979	436	914
16. Total debits	$7,899	$7,929	$5,129	$5,038	$5,319	$5,758
17. Unaccounted for	—1,082	—1,143	+228	+488	+119	+212

†Includes payments to or from United States Government.

WAR DEBTS AND AMERICAN FOREIGN INVESTMENTS

It is obvious that there can be no real settlement of the European indebtedness to the United States as long as this country continues to maintain a heavy favorable balance of payments. If the foreign governments continue to make payments on the debts to the United States Government, they will have to do so by private borrowing. The only result of this, as indicated above, will be to liquidate the government indebtedness, at the same time increasing the indebtedness to the United States on private accounts.

Since the war the United States has become the leading creditor nation of the world. At the present time, American foreign investments amount to about $12,000,000,000 and the annual interest that Americans are entitled to receive upon the basis of this large investment has been estimated to be approximately $750,000,000 a year—an amount almost twice as large as the annuities due the United States Government under the debt-funding agreements. If the United States were to receive regularly the annual payments on account of the war debts and private investments it would be necessary to have an unfavorable balance of payments of approximately a billion dollars a year. Such a sudden reversal of American trade relations is not considered even as a remote possibility by any one familiar with international commercial transactions. It is doubtful if foreign countries, under existing economic conditions, could produce the kinds of commodities which would bring about such a change in trade relations, to say nothing of the difficulties of shipping these commodities into the United States over the tariff wall. Moreover, American industry is disinclined to encourage such a reversal of American trade relations. Under the leadership of the Bureau of Foreign and Domestic Commerce of the United States Department of Commerce, American business is engaged in a cam-

paign of seeking new markets and increasing the volume of its exports.

AMERICAN PROSPERITY AND EUROPEAN PURCHASING POWER

The economic welfare of the United States is linked with the liquidation of the war debts in still another way. Europe is one of the largest customers of the United States and the ability of Europeans to buy American products will be affected by the amounts they are required to pay on their debts to the United States. Secretary Mellon in defending the Italian Debt Settlement before the Ways and Means Committee of the House of Representatives said:

"The settlements are made in the real interests of those American producers who must have a foreign market able to buy. The American producer needs these debt settlements. The entire foreign debt is not worth as much to the American people in dollars and cents as a prosperous Europe as a customer."

The precise effect of the liquidation of the war debts on the European demand for American products is perhaps impossible to determine with any degree of accuracy. It is, however, a question of most vital concern to the economic prosperity of the United States and one which in the future will loom large in importance.

ANNEX I

SKELETON FORM OF CERTIFICATE OF INDEBTEDNESS

Given by the Borrowing Government to the Government of the United States under the Liberty Bond Acts

The Government of (name of foreign government) for value received promises to pay to the United States of America, or assigns, the sum of (number of dollars in words), on demand, with interest from date hereof at the rate of (rate of per cent) per cent per annum. Such principal sum and the interest thereon will be paid without deduction for any (name of foreign Government) taxes, present or future, in gold coin of the United States of America of the present standard of weight and fineness at the Subtreasury of the United States in New York, or, at the option of the holder, at the Treasury of the United States in Washington.

This certificate will be converted by the Government of (name of foreign Government) if requested by the Secretary of the Treasury of the United States of America, at par with an adjustment of accrued interest into an equal par amount of (rate per cent) per cent convertible gold bonds of the Government of (name of foreign Government), conforming to the provisions of acts of Congress of the United States known, respectively, as second Liberty bond act, third Liberty bond act, and fourth Liberty bond act. If bonds of the United States issued under authority of said acts shall be converted into other bonds of the United States bearing a higher rate of interest than 4½ per cent per annum, a proportionate part of the obligations of the Government of (name of foreign Government) of this series acquired by the United States under authority of said acts shall, at the request of said Secretary of the Treasury, be converted into obligations of said Government of (name of foreign Government), bearing interest at a rate exceeding that previously borne by this obligation by the same amount as the interest rate of the bonds of the United States issued upon such conversion exceeds the interest rate of (rate of this obligation) per cent, but not less than the highest rate of interest borne by such bonds of the United States.[31]

[31] U. S. Treas. Dept. *An. Rept. on State of Finances.* 1919-20. p. 56-7.

ANNEX II

ACT OF CONGRESS CREATING THE WORLD WAR FOREIGN DEBT COMMISSION*

(Approved February 9, 1922)

An Act to Create a Commission Authorized under Certain Conditions to Refund or Convert Obligations of Foreign Governments Held by the United States of America and for Other Purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled. That a World War Foreign Debt Commission is hereby created consisting of five members, one of whom shall be the Secretary of the Treasury, who shall serve as chairman, and four of whom shall be appointed by the President, by and with the advice and consent of the Senate.

Sec. 2. That, subject to the approval of the President, the commission created by section 1 is hereby authorized to refund or convert, and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign Government now held by the United States of America,

*Official text (Public—No. 139—67th Congress, 42 Stat. L., 363).

or any obligation of any foreign Government hereafter received by the United States of America (including obligations held by the United States Grain Corporation, the War Department, the Navy Department, or the American Relief Administration), arising out of the World War, into bonds or other obligations of such foreign Government in substitution for the bonds or other obligations of such Government now or hereafter held by the United States of America, in such form and of such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security, if any, as shall be deemed for the best interests of the United States of America: *Provided,* That nothing contained in this Act shall be construed to authorize or empower the commission to extend the time of maturity of any such bonds or other obligations due the United States of America by any foreign Government beyond June 15, 1947, or to fix the rate of interest at less than 4¼ per cent per annum: *Provided further,* That when the bond or other obligation of any such Government has been refunded or converted as herein provided, the authority of the commission over such refunded or converted bond or other obligation shall cease.

Sec. 3. That this Act shall not be construed to authorize the exchange of bonds or other obligations of any foreign Government for those of any other foreign Government, or cancellation of any part of such indebtedness except through payment thereof.

Sec. 4. That the authority granted by this Act shall cease and determine at the end of three years from the date of the passage of this Act.

Sec. 5. That the annual report of this commission shall be included in the Annual Report of the Secretary of the Treasury on the state of the finances, but said commission shall immediately transmit to the Congress copies of any refunding agreements entered into, with the approval of the President, by each foreign Government upon the completion of the authority granted under this Act.

ANNEX III

AMENDMENT TO THE DEBT COMMISSION ACT RELATIVE TO THE BRITISH SETTLEMENT*

(Approved February 28, 1923)

An Act to Amend the Act Entitled "An Act to Create a Commission Authorized under Certain Conditions to Refund or Convert Obligations of Foreign Governments Held by the United States of America, and for Other Purposes," Approved February 9, 1922.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first proviso of section 2 of the Act entitled "An Act to create a commission authorized under certain conditions to refund or convert obligations of foreign governments held by the United States of America, and for other purposes," approved February 9, 1922, is amended to read as follows:

"*Provided,* That the settlement of indebtedness of the United Kingdom of Great Britain and Ireland to the United States, as given below.

"The principal of the bonds shall be paid in annual installments on a fixed schedule, subject to the right of the British Government to make these payments in three-year periods. The amount of the first year's installment will be $23,000,000 and these annual installments will increase with due regularity during the life of the bonds until, in the sixty-second year, the amount of the installment will be $175,000,000, the aggregate installments being equal to the total principal of the debt.

Principal of notes to be refunded	$ 4,074,818,358.44
Interest accrued and unpaid up to December 15th, 1922, at the rate of 4¼ per cent	629,836,106.99
	$ 4,704,654,465.43
Deduct payments made October 16, 1922, and November 15, 1922, with interest at 4¼ per cent thereon to December 15, 1922	100,526,379.69
	$ 4,604,128,085.74
To be paid in cash	4,128,085.74
Total principal of indebtedness as of December 15, 1922, for which British Government bonds are to be issued to the United States Government at par	$ 4,600,000,000.00

"The British Government shall have the right to pay off additional amounts of the principal of the bonds on any interest date upon ninety day's previous notice.

"Interest is to be payable upon the unpaid balances at the following rates, on December 15 and June 15 of each year: At the rate of 3 per cent per annum payable semi-annually from December 15, 1922, to December 15, 1932, thereafter at the rate of 3½ per cent per annum payable semi-annually until final payment.

"For the first five years one-half of the interest may be deferred and added to the principal, bonds to be issued therefor similar to those of the original issue.

"Any payment of interest or of principal may be made in any United States Government bonds

*Official text (Public—No. 455—67th Congress, 42 Stat. L., 1325).

issued since April 6, 1917, such bonds to be taken at par and accrued interest—is hereby approved and authorized, and settlements with other governments indebted to the United States are hereby authorized to be made upon such terms as the commission, created by the Act approved February 9, 1922, may believe to be just, subject to the approval of the Congress by Act or joint resolution."

Sec. 2. That the first section of the Act entitled "An Act to create a commission authorized under certain conditions to refund or convert obligations of foreign governments held by the United States of America. and for other purposes," approved February 9, 1922, is amended to read as follows:

"That a World War Foreign Debt Commission is hereby created consisting of eight members, one of whom shall be the Secretary of the Treasury, who shall serve as chairman, and seven of whom shall be appointed by the President, by and with the advice and consent of the Senate. Not more than four members so appointed shall be from the same political party."

Sec.3. That the provisions of section 2 of this Act shall not affect the tenure of office of any person who is a member of the World War Foreign Debt Commission at the time this Act takes effect.

ANNEX IV
DEBT SETTLEMENT WITH GREAT BRITAIN*

Agreement dated June 19, 1923. Approved on the part of the United States by Act of Congress of February 28, 1923. It was not necessary to have the agreement ratified by the British Parliament.

A PROPOSAL,

Dated the eighteenth day of June, 1923 by HIS BRITANNIC MAJESTY'S GOVERNMENT, hereinafter called GREAT BRITAIN, to the GOVERNMENT OF THE UNITED STATES OF AMERICA, hereinafter called the UNITED STATES, regarding the funding of the debt of GREAT BRITAIN to the UNITED STATES.

Whereas Great Britain is indebted to the United States as of 15th December, 1922, upon demand obligations in the principal amount of $4,074,818,358.44, not including obligations in the principal amount of $61,000,000, representing advances deemed to have been made to cover purchases of silver under the Act of Congress approved 23rd April, 1918, of which $30,500,000 has been repaid in April and May, 1923, and the balance is to be repaid in 1924, pursuant to an agreement already made between the parties, and Great Britain is further indebted to the United States, as of 15th December, 1922, on account of interest accrued from 15th April and 15th May, 1919, on said $4,074,818,358.44, principal amount of demand obligations:

And whereas Great Britain has power under the War Loan Act, 1919 (9 and 10 Geo. 5, cap 37) to issue securities in exchange for maturing securities issued under the War Loan Acts, 1914 to 1918:

And whereas the demand obligations now held by the United States Treasury were so issued, and will become payable upon the request of the United States Treasury for their payment:

Now therefore Great Britain proposes, in the exercise of the powers above recited and in consideration and in faith of the statements, conditions, premises and mutual covenants herein contained, to issue to the United States, in exchange for the demand obligations now held by the United States Treasury, securities which shall be in their terms and conditions in accordance with the following provisions:

1. *Amount of Indebtedness.*

The total amount of indebtedness to be funded is $4,600,000,000, which has been computed as follows:

Principal amount of demand obligations to be funded		$ 4,074,818,358.44
Interest accrued thereon from 15th April and 15th May, 1919, respectively, to 15th December, 1922, at the rate of 4¼ per cent per annum	$ 629,836,106.99	
Less—Payments made by Great Britain on 16th October and 15th November, 1922, on account of interest, with interest thereon at 4¼ per cent per annum from said dates, respectively, to 15th December, 1922	100,526,379.69	
		529,309,727.30
Total principal and interest, accrued and unpaid, as of 15th December, 1922		$ 4,604,128,085.74
Paid in cash by Great Britain, 15th March, 1923		4,128,085.74
Total indebtedness to be funded into bonds of Great Britain		$ 4,600,000,000.00

*Official text as issued by the Treasury Department

2. *Issue of Long-Time Obligations.*

The securities, which it is proposed to issue at par as promptly as possible, shall be obligations in the principal amount of $4,600,000,000, in the form of bonds to be dated 15th December, 1922, maturing 15th December, 1984, with interest payable semi-annually on 15th June and 15th December in each year at the rate of 3 per cent per annum from 15th December, 1922, to 15th December, 1932, and thereafter at the rate of 3½ per cent per annum until the principal thereof shall have been repaid.

3. *Method of Payment.*

The bonds shall be payable as to both principal and interest in United States gold coin of the present standard of weight and fineness, or its equivalent in gold bullion, or, at the option of Great Britain, upon not less than thirty days' advance notice indicating the minimum amount which it is contemplated to pay at next due date in gold, cash or available funds, in any bonds of the United States issued or to be issued after 6th April, 1917, to be taken at par and accrued interest to the date of payment hereunder: *provided, however*, that Great Britain may at its option, upon not less than ninety days' advance notice, pay up to one-half of any interest accruing between 15th December, 1922, and 15th December, 1927, on any British bonds proposed to be issued hereunder, in bonds of Great Britain, maturing 15th December, 1984, dated and bearing interest from the respective dates when the interest to be paid thereby becomes due and substantially similar in other respects to the original bonds proposed to be issued hereunder.

All payments to be made by Great Britain on account of the principal or interest of any bonds proposed to be issued hereunder shall be made at the Treasury of the United States in Washington or, at the option of the Secretary of the Treasury of the United States, at the Federal Reserve Bank of New York and, if in cash, shall be made at the option of Great Britain in gold coin of the United States or in gold bullion or in immediately available funds (or, if in bonds of the United States, shall be in form acceptable to the Secretary of the Treasury of the United States). Appropriate notation of all payments on account of principal shall be made on the bonds proposed to be issued hereunder which may be held by the United States: *provided, however*, that all payments in respect of any marketable obligations issued under paragraph 9 of this proposal shall be made at the office of the fiscal agents of the British Government in the City of New York.

4. *Exemption from Taxation.*

The principal and interest of all bonds issued or to be issued hereunder shall be exempt from all British taxation, present or future, so long as they are in the beneficial ownership of the United States or of a person, firm, association, or corporation neither domiciled nor ordinarily resident in the United Kingdom.

5. *Form of Bonds.*

All bonds proposed to be issued hereunder to the United States shall be payable to the United States of America, or order, shall be issued, so far as possible, in denominations of $4,600,000 each, and shall be substantially in the form set forth in the exhibit annexed hereto, and marked "Exhibit A." The bonds shall be signed for Great Britain by the Counsellor of His Britannic Majesty's Embassy at Washington.

6. *Repayment of Principal.*

To provide for the repayment of the total principal of the debt before maturity of the $4,600,000,000 principal amount of bonds to be issued, it is proposed that the bonds shall contain provisions the effect of which shall be that Great Britain shall make to the United States payments, on account of the original principal amount of the bonds to be issued, in the amounts and on the dates named in the following table: (Table omitted)

Provided, however, that Great Britain may at its option, upon not less than ninety days' advance notice, postpone any payment of principal falling due as hereinabove provided to any subsequent 15th June or 15th December, not more than two years distant from its due date, but only on condition that, if Great Britain shall at any time exercise this option as to any payment of principal, the payment falling due in the next succeeding year cannot be postponed to any date more than one year distant from the date when it becomes due, unless and until the payment previously postponed shall actually have been made, and the payment falling due in the second succeeding year cannot be postponed at all unless and until the payment of principal due two years previous thereto shall actually have been made.

In the event of Great Britain issuing bonds to the United States in payment of interest accruing between 15th December, 1922, and 15th December, 1927, as proposed in paragraph 3 above, the bonds so issued shall contain provision for the payment of their principal before maturity through annual instalments on account of principal corresponding substantially to the schedule of payments on account of principal appearing in the table hereinabove set forth.

7. *Payments before Maturity.*

Great Britain may at its option, on any interest date or dates upon not less than ninety days' advance notice, make advance payments of principal, in addition to the payments required to be made by the provisions of the bonds in accordance with paragraph 6 of this proposal. Any such additional payments shall first be applied to the principal of any bonds which shall have been issued hereunder on account of interest accruing between 15th December, 1922, and 15th December, 1927, and then to the principal of any other bonds which shall have been issued hereunder. Any payments made to the

United States under this provision shall be in amounts of $1,000,000 or multiples thereof.

8. *Calculation of Interest.*

Notwithstanding anything herein contained, the interest payable from time to time on the bonds proposed to be issued shall be computed on the amount of the principal outstanding on the previous interest date, with adjustments in respect of any payment on account of principal which may have been made since the previous interest date.

9. *Exchange for Marketable Obligations.*

Great Britain will issue to the United States at any time or from time to time, at the request of the Secretary of the Treasury of the United States, in exchange for any or all of the bonds proposed to be issued hereunder and held by the United States, definitive engraved bonds in form suitable for sale to the public, in such amounts and denominations as the Secretary of the Treasury of the United States may request, in bearer form, with provision for registration as to principal, and or in fully registered form, and otherwise on the same terms and conditions, as to dates of issue and maturity, rate or rates of interest, exemption from taxation, payment in bonds of the United States issued or to be issued after 6th April, 1917, payment before maturity, and the like, as the bonds surrendered on such exchange, except that the bonds shall carry such provision for repayment of principal as shall be agreed upon; provided that, if no agreement to the contrary is arrived at, any such bonds shall contain separate provision for payments before maturity, conforming substantially to the table of repayments of principal prescribed by paragraph 6 of this proposal and in form satisfactory to the Secretary of the Treasury of the United States, such payments to be computed on a basis to accomplish the retirement of any such bonds by 15th December, 1984, and to be made through annual drawings for redemption at par and accrued interest. Any payments of principal thus made before maturity on any such bonds shall be deducted from the payments required to be made by Great Britain to the United States in the corresponding years under the terms of the table of repayments of principal prescribed in paragraph 6 of this proposal.

Great Britain will deliver definitive engraved bonds to the United States in accordance herewith within six months of receiving notice of any such request from the Secretary of the Treasury of the United States, and pending the delivery of the definitive engraved bonds will, at the request of the Secretary of the Treasury of the United States, deliver temporary bonds or interim receipts in a form to be agreed upon within three months of the receipt of such request. The United States, before offering any such bonds or interim receipts for sale in Great Britain, will first offer them to Great Britain for purchase at par and accrued interest and Great Britain shall likewise have the option, in lieu of issuing to the United States any such bonds or interim receipts, to make advance redemption, at par and accrued interest, of a corresponding amount of bonds issued hereunder and held by the United States.

10. *Cancellation and Surrender of Demand Obligations.*

Upon the delivery to the United States of the $4,600,000,000 principal amount of bonds proposed to be issued hereunder, the United States will cancel and surrender to Great Britain, through the British Ambassador at Washington, or his representative, at the Treasury of the United States in Washington, the demand obligations of Great Britain in the principal amount of $4,074,818,358.44 described in the preamble to this proposal.

11. *Notices.*

Any notice, request or consent under the hand of the Secretary of the Treasury of the United States shall be deemed and taken as the notice, request, or consent of the United States, and shall be sufficient if delivered at the British Embassy at Washington or at the office of the Permanent Secretary of the British Treasury in London; and any notice, request, or election from or by Great Britain shall be sufficient if delivered to the American Embassy in London or to the Secretary of the Treasury of the United States at the Treasury of the United States in Washington. The United States in its discretion may waive any notice required hereunder, but any such waiver shall be in writing and shall not extend to or affect any subsequent notice or impair any right of the United States to require notice hereunder.

Signed on behalf of the Lords Commissioners of His Majesty's Treasury, this eighteenth day of June, 1923.

Washington A. GEDDES,

His Britannic Majesty's Ambassador Extraordinary and Plenipotentiary.

ANNEX V

BRITISH-FRENCH DEBT SETTLEMENT*

(Signed July 12, 1926)

The British and French Governments having arrived at a definite settlement of the debts due by France to Great Britain arising out of the great war, the undersigned, duly authorized by their respective Governments, subject to such ratification as may be required, have agreed as follows:

1. France agrees to pay and Great Britain to accept the following annuities in full and final settlement (subject to the provisions of Article 7 of this agreement) of the war debt due by France to Great Britain, in respect of which Great Britain holds sterling Treasury bills to the value of £653,127,900, viz:

During the financial year 1926-27, £4,000,000; 1927-28, £6,000,000; 1928-29, £8,000,000; 1929-30,

*Text from *The New York Times*, July 14, 1926.

£10,000,000; 1930-31 to 1956-57 inclusive, £12,-500,000; 1957-58 to 1987-88 inclusive, £14,000,000.

The above payments will be made in sterling at the Bank of England in London in equal half yearly instalments on the 15th of September and the 15th of March of each year, so that the first instalment shall be paid on the 15th of September, 1926, and the last instalment on the 15th of March, 1988.

2. France will issue and deliver to the British Treasury on or before the 15th of September, 1926, a bond in respect of each of the instalments provided for in Article 1 of this agreement.

3. The payments due under all bonds issued in accordance with this agreement shall be made without deduction for, and shall be exempt from, any and all taxes and other public dues, present or future, imposed by or under the authority of France or any political or local taxing authority within France.

4. France at her option upon not less than ninety days' notice to Great Britain may postpone the payments of one part, not exceeding one-half of any of the half yearly instalments due under Article 1, to any subsequent 15th of September or 15th of March not more than three years distant from its due date, but only on condition that, in case France shall at any time exercise this option as to payment of any instalments falling due in the third succeeding year, they cannot be postponed at all unless and until the instalments due three years, two years and one year previous thereto shall actually have been paid in full. All such postponed payments shall bear interest at the rate of 5 per cent per annum, payable half-yearly.

5. If at any time it appears that the aggregate payments effectively received by Great Britain under the allied war debt funding agreements and on account of reparations or of liberation bonds exceed the aggregate payments effectively made by Great Britain to the Government of the United States of America in respect of war debts, account shall be drawn up by the British Treasury, interest at 5 per cent being allowed on both sides of the account; and if that account shows that receipts exceed payments, Great Britain will credit France against the payments next due by France under Article 1 of this agreement with such proportion of that excess as the payments effectively made by France under Article 4 of this agreement bear to the aggregate sums effectively received by Great Britain under all the allied war debt funding agreements. Thereafter a similar account will be drawn up by the British Treasury each year and any further excess of receipts over payments shall each year give rise to the credit to France of a proportion of such excess calculated in the manner indicated above. On the other hand a deficit shall be made good by an increase in the payments next due by France up to a similar proportion of such deficit within the limit of the total amounts of the credits already allowed to France under this article.

For the purpose of this Article, any capital sums, which may hereafter be realized by Great Britain in respect of reparations or liberation bonds, will be taken at their annual value, taking account of amortization.

6. Accounts relating to the war debt of France to Great Britain shall be finally closed and the British Treasury shall be entitled to retain any sums credited or to be credited to France in respect of such accounts. Save as provided in this agreement the contracting parties and their agents reciprocally renounce all claims or counter claims against the other contracting party or their agents in respect of the above mentioned accounts, or the services and supplies to which they relate.

7. The sum of £53,500,000 shall remain as a non-interest bearing debt of France to Great Britain, repayment of which will be settled by a further agreement. Meanwhile, the British Government will retain (without interest) against this debt the gold remitted to London by the French Government during the war under the Calais agreement.

8. Upon the execution of this agreement and the delivery to Great Britain of the bonds of France, to be issued hereunder, duly executed, the British Treasury will cancel and surrender to France the French Treasury bills at present held by Great Britain.

Done in duplicate, both in English and in French, the original English text being the authentic one in case of difference, this 12th day of July, 1926.

ANNEX VI

SUMMARY OF ALLIED DEBT SETTLEMENTS

By the Bank of Manhattan Company

The Bank of Manhattan Company* has prepared an excellent summary of the amount of cancellation which has been effected in the debt settlements with Great Britain, France, Italy and Belgium, using the interest rate of 5 per cent as a "fair" rate. It must be remembered, however, that the 5 per cent rate of interest is only one of several possible interest rates which have been suggested from time to time.

*Bank of Manhattan Co. *The A. B. C.'s of the Foreign Debts.*

BRITISH SETTLEMENT SUMMARIZED

Net amount of British Debt to U. S. including interest at 5%, immediately prior to date of settlement....	$4,715,310,000
On which Great Britain paid, at time of settlement, the sum of...............	4,128,085
Leaving a total balance of...............	$4,711,181,915
From which, by reduction of interest rate specified in original notes, the United States threw off.................	111,181,915
Thus reducing Great Britain's total debt, for which she gave bonds maturing annually over a period of 62 years, to..	$4,600,000,000
The cash value of these bonds, on a 5% income basis, (rate under original loans) would have been....	3,296,948,000
Or a reduction of.................................	$1,303,052,000
Which, added to.................................. (the amount thrown off by lowering the interest rate on the original loans)	111,181,915
Makes a total concession by the U. S. of	$1,414,233,915

FRENCH SETTLEMENT SUMMARIZED

Total amount of debt, including interest at 5% to June 15, 1925 was	$4,230,777,000.00
From which, by reduction of the interest rate specified in original notes, the United States threw off	205,390,313.11
Leaving a net balance on June 15, 1925, of	$4,025,386,686.89
Upon which France was to pay in cash	386,686.89
And to give bonds for.....................	$4,025,000,000.00
The cash or "present value" of the bonds, as calculated by the United States Treasury Department, on a 5% basis, as of June 15, 1925, was.......................	1,681,369,000.00
Or a reduction of............................	$2,343,631,000.00
Which, added to.............................. (the amount thrown off by lowering the interest rate on the original loans)	205,390,313.11
Made a total concession of...........	$2,549,021,313.11
A sum which exceeds the principal of France's *pre-Armistice* debt by	$ 579,021,313.11

ITALIAN SETTLEMENT SUMMARIZED

Total net amount of Italian debt, including interest at 5% prior to settlement	$2,150,150,000.00
From which, by reduction of interest rate specified in original notes, the United States threw off	107,950,533.66
Leaving a total net balance of........	$2,042,199,466.34
On which Italy paid at time of settlement, the sum of...............	199,466.34
Thus reducing Italy's total debt, for which she will give bonds carrying extremely low rates of interest and maturing annually over a period of 62 years, to.....	2,042,000,000.00
The cash or "present value" of these low interest bonds upon a 5% income basis was found to be	426,287,000.00
Or a reduction of..........................	$1,615,713,000.00
Which, added to.............................. (the amount thrown off by lowering the interest rate on the original loans)	107,950,533.66
Makes a total concession by the United States of	1,723,663,533.66

BELGIAN SETTLEMENT SUMMARIZED

Total amount of debt, including interest at 5% prior to settlement	$483,426,000.00
From which, by reduction of interest rate specified in original notes, the United States threw off.................	65,628,765.34
Leaving a total net balance of.........	$417,797,234.66
On which Belgium paid at time of settlement the sum of..................	17,234.66
Thus reducing Belgium's total debt, for which she gave bonds for $171,780,000 without interest and $246,000,000 with interest at low rates, to	$417,780,000.00
The cash or "present value" of these bonds, as calculated by the Treasury Department, on a 5% income basis at the time of settlement was	191,766,000.00
Or a reduction of..............................	$226,014,000.00
Which, added to.................................. (the amount thrown off by lowering the interest rate on the original loans)	65,628,765.24
Makes a total concession by the United States of..............................	$291,642,765.34
A sum which *exceeds* Belgium's pre-Armistice debt by..........................	$119,862,765.34

The settlements of the other nine countries and the concessions made by the United States, based upon the rates of interest of the original notes, are shown in the following table:

**Idem.

COUNTRY	Total Net Debt at Time of Settlement with Interest at Rates of Original Notes	Amount Thrown off Before Settlement by Reduction of Interest and for Other Reasons	Net Debt to Be Settled	Cash or "Present Value" of Bonds Given in Settlement (5 per cent Basis)	CONCESSIONS MADE BY U. S. — Difference Between Face and "Present Values"	Total Money Concessions Made by U. S.
Czechoslovakia	$123,854,000.00	$ 8,854,000.00	$115,000,000.00	$ 77,985,000.00	$ 37,015,000.00	$ 45,869,000.00
Estonia	14,143,000.00	311,558.12	13,831,441.88	9,915,000.00	3,915,000.00	4,226,558.12
Finland	9,190,000.00	180,684.73	9,009,315.27	6,452,000.00	2,548,000.00	2,728,684.73
Hungary	1,984,000.00	44,246.96	1,939,753.04	1,388,000.00	551,000.00	594,246.96
Latvia	5,893,000.00	113,437.24	5,779,562.76	4,137,000.00	1,638,000.00	1,751,437.24
Lithuania	6,216,000.00	184,453.03	6,031,546.97	4,322,000.00	1,708,000.00	1,892,453.03
Poland	182,324,000.00	3,758,974.01	178,565,025.99	127,643,000.00	50,857,000.00	54,615,974.01
Rumania	46,945,000.00	2,350,548.46	44,594,451.54	29,507,000.00	15,083,000.00	17,433,548.46
Jugoslavia	66,164,000.00	3,306,887.61	62,857,112.39	15,919,000.00	46,931,000.00	50,237,887.61
Total	$456,713,000.00	$19,104,790.16	$437,608,209.84	$277,268,000.00	$160,246,000.00	$179,350,790.00

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